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# MAKING OUR VOICES HEARD

CANADIAN BROADCASTING AND FILM  
FOR THE 21ST CENTURY



MANDATE REVIEW COMMITTEE  
CBC, NFB, TELEFILM



Canada







# MAKING OUR VOICES HEARD

7

CANADIAN BROADCASTING AND FILM  
FOR THE 21ST CENTURY

MANDATE REVIEW COMMITTEE  
CBC, NFB, TELEFILM



Copies of this report are available from:

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Rapport du Comité d'examen des mandats - SRC, ONE, Téléfilm.*



MANDATE REVIEW COMMITTEE - CBC, NFB, TELEFILM  
COMITÉ D'EXAMEN DES MANDATS - SRC, ONE, TÉLÉFILM

January 1996

The Honourable Michel Dupuy, P.C., M.P.  
Minister of Canadian Heritage  
Ottawa, Ontario

Dear Mr. Dupuy:

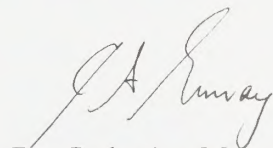
On May 2, 1995, you called upon us to carry out a study of the mandates of the Canadian Broadcasting Corporation, the National Film Board and Telefilm Canada. We were honoured to be asked to undertake this study, described in the Federal Budget of February 27, 1995 as a fundamental review of the support the Government provides to these institutions and of their respective mandates.

We are pleased to submit our report to your attention.

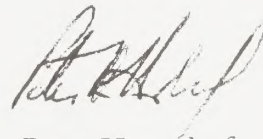
Yours sincerely,



Pierre Juneau  
CHAIRMAN



Dr. Catherine Murray  
MEMBER



Peter Herrndorf  
MEMBER





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# PREFACE





## TERMS OF REFERENCE

The Honorable Michel Dupuy, Minister of Canadian Heritage, asked this Committee to undertake a challenging task: to provide advice on the mandates and future role of the Canadian Broadcasting Corporation, the National Film Board and Telefilm Canada.

Our assignment stemmed from an undertaking originally announced in the Federal Budget of February 27, 1995. At that time, the Minister of Finance said the Government would conduct “a fundamental review of its support to, and the mandates of, the CBC, NFB and Telefilm Canada.”

In announcing the formation of the Mandate Review Committee on May 2, 1995, Mr. Dupuy emphasized that the role of the Committee would be to strengthen the capacity of key federal institutions to operate in a new environment. “We remain committed to the production and dissemination of Canadian content,” said the Minister, as the terms of reference and makeup of the Committee were released to the press. “The Mandate Review Committee will identify how these institutions can best achieve that objective at a time of great financial and technological challenge.”

We took to heart the provisions of our mandate mentioning the requirement to support the CBC “*as a strong public broadcaster which reflects Canada’s diverse regions,*” and the need to look at “*the possibility of alternative sources of revenue.*”

PREFACE



The Committee members were asked to work closely with the three organizations, and to encourage them to bring forward their proposals for mandate adjustments and priority setting in the current fiscal climate. They asked the three institutions to share with them their vision of their role in Canadian society for the coming decade.

The Committee was also asked to take into account the report of the Auditor General on his special examination of the CBC; the recommendations of the Standing Committee of the House on Canadian Heritage on the role of the CBC in the multichannel universe; those of the Working Group on Canadian Programming and Private Television; the work of the Group of Experts on Alternative Programming Services; and the findings and recommendations of other studies and reports previously submitted to the Government.

Our reporting deadline was postponed with the Minister's permission to take into account the complexity and the importance of the matters submitted to the Committee.

The Committee's sole and exclusive mandate is contained in the terms of reference quoted above and reproduced in full in the attached appendix. The Committee decided at the outset that its terms of reference did not require it to restrict the mandates of the three institutions in order to achieve a pre-determined level of budget reductions. While we have naturally been pre-occupied by fiscal realities, we have considered all along that our primary task was to analyze and redefine the respective mandates.

This analysis was not a simple matter of looking at enabling statutes. Indeed, one of the difficulties posed by this review is the unusually complex nature of the mandates – especially those of the CBC and NFB. They have broad mandates described in their enabling legislation, but the conduct of their business over the years has been shaped by many other instruments of policy-making. These include reviews and reports of the House Standing Committee; decisions and policies of the CRTC; and budgets and strategic plans of the organizations themselves. We made every attempt to take this body of information and policies into account during our deliberations, in order to have the broadest possible picture of their operational framework.

Within the time available, the Committee examined the three cultural institutions with great care: their past accomplishments, their present performance and the changing world in which they will operate over the next

decade. As required, we also took into account current budgetary constraints. The organizations apprised us of the measures they envisage to make themselves more effective, efficient and productive. We ourselves looked at a number of solutions to reduce the cost of providing their services. We also considered whether all of their services continue to be essential... whether the institutions themselves are still indispensable... and if so, whether and how they need to change.

Our conclusion is that all three have an essential role to play in the cultural life of the country, which includes the provision of basic public services in both official languages. In reaching this conclusion, we have taken into account the Government's own statement that it "remains committed to the production and dissemination of Canadian content."

Our purpose therefore is to propose a set of policies and a redefined role for these three Canadian cultural institutions for the next decade, based on the assumption that they will be supported by Canadians only if they adapt to a changing environment, and are seen as indispensable elements in the cultural and public life of the country.





## PROCESS & PROCEDURES

Unlike a royal commission, we were not asked to conduct formal public hearings. Other government forums have provided opportunities for a full airing of many of the issues we have addressed. The Committee did, however, initiate an informal consultative process having several different aspects.

First of all, we published a call for submissions in a number of French- and English-language daily newspapers across the country. We also created an electronic site on the World Wide Web to disseminate information about submissions and the work of the Committee. As a result of the call, we received some 150 submissions from private citizens, interest groups and industry stakeholders.

Secondly, we held a number of consultative sessions across the country. These included meetings with the CEOs and senior managers of the three institutions, as well as regional staff; independent producers and filmmakers; and business and labour leaders. By and large, separate meetings were held with French- and English-speaking employees and community leaders. We were delighted and grateful that even the exceptionally fine summer weather did not seem to keep too many interested parties away from our round of meetings across the country.

Thirdly, our terms of reference provided that we “consult closely with the CBC, NFB and Telefilm Canada.” It was in the interests of all the parties that

PREFACE

the Committee establish a productive working relationship with the three institutions. We owe a debt of gratitude to the respective board of directors chairs, chief executives and staff for their cooperation and willingness to provide answers to questions about their operations, strategic plans, finances and mandates. This report could not have been written without their collaboration. Naturally, all of the opinions, interpretations and recommendations expressed in this report are the sole responsibility of the Committee.

As provided in our terms of reference, the Committee sought – and received – the support and assistance of the Department of Canadian Heritage. We wish to express our gratitude to the Minister and senior departmental staff who went out of their way to preserve an arm's length relationship, while putting many of the Department's resources at our disposal.

Finally, we were also asked to draw on “past studies and reports previously submitted to the Government,” as well as submissions “previously made by the public, experts and private sector representatives to recent public processes.” The Committee was able to commission a certain amount of original research, although a good deal of our research involved a thorough review of existing documentation. Given the large body of work that has addressed federal cultural policy in the past, we did not wish to duplicate effort.

While our review concentrated on the recent past, we also took pains to look back several decades and examine the recommendations put forward by our distinguished predecessors – the Aird and Massey-Lévesque Commissions, Fowler, Caplan-Sauvageau and others. We have found this historical perspective very useful in formulating our own recommendations. It also served the purpose of reminding us that neither the issues faced by the institutions, nor the solutions proposed, are in any way a recent phenomenon.

## ACKNOWLEDGEMENTS

The Committee requested and received extensions to its original timetable and is indebted to its consultants and staff, who had to change other commitments to continue their work with the Committee.

We wish to acknowledge the invaluable assistance of Richard Matthews, as Executive Director, who was seconded from the Department of Canadian Heritage. He succeeded Robert Malcolmson, who was on loan from the law firm of Goodman, Phillips & Vineberg for the period between May and September. We are most grateful also to Franklin Delaney for his advice and collaboration throughout the activities of the Committee, and to Suzanne Chevigny, our Administrative Director, whose constant dedication and vigilance greatly contributed to the fulfilment of our mandate.

We received the advice of many consultants and researchers, but we must single out the constant collaboration and excellent advice of Paul Audley, David Ellis and Michel Houle. Without their experience and knowledge of the areas under examination, our task would have been difficult to undertake and to complete. We owe additional thanks to the Department of Canadian Heritage for the secondment of René Bouchard, who joined our team in mid-course but proved indispensable.

The requirement in our mandate to consider solutions for alternative sources of revenue for the CBC was a task demanding the collaboration of experts in

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fiscal matters. We are most grateful to Charles-Antoine St-Jean, Robert Fonberg and Morley English of Ernst & Young, and to Scott Wilson of Price Waterhouse for their assistance in this respect. We also want to thank them and Eileen Gordon of Ernst & Young for their help in analyzing the finances of the three institutions. The financial figures were supplied by the institutions themselves but were carefully reviewed by Ernst & Young.

Our administrative assistants Simone Lecours, Edith Ringuette and Catherine Aillerie were exceptionally devoted and efficient. Isabelle Le Gal and Lise Corbeil joined us during the final weeks of the preparation of the report. We wish to thank them warmly.

Thanks are also due to our translators and editors, Jean-Pierre Fournier, Terrance Hughes, Antonin Boisvert, Jacques Constantin and Ronald Lebel, and to graphic designers Natalie Coté and Jennifer Schumacher of Zeste Communications-Schumacher Design.

While acknowledging these and other invaluable services, we wish to state of course that we assume full responsibility for the contents and recommendations of this report.

I.

# A PUBLIC PURPOSE

THE MANDATE REVIEW COMMITTEE







## I. A PUBLIC PURPOSE

Parliament created the CBC, the National Film Board and Telefilm to give Canadians a stronger voice in their own country. Since then, the world around us has changed significantly, but this basic public purpose remains.

The Canadian Radio Broadcasting Commission was created in 1932 by a Conservative government, and the Canadian Broadcasting Corporation in 1936 by a Liberal government. The extraordinary democratic potential of radio, and its capacity to serve the Canadian public, was well understood by Prime Minister R.B. Bennett. In a speech to support the creation of the CBC in the House of Commons he spoke of:

that enduring fellowship which is founded on the clear and sympathetic understanding which grows out of closer mutual knowledge. In this stage of our national development, we have problems peculiar to ourselves and we must reach a solution of them through the employment of all available means. The radio has a place in the solution of all those problems. It becomes, then, the duty of Parliament to safeguard it in such a way that its fullest benefits may be assured to the people as a whole.

It was a brave and assertive turning point in the history of Canada. Despite a deepening economic depression, imagination and national will prevailed, and action was quickly taken.

A PUBLIC  
PURPOSE

The National Film Board was established in 1939. Its role would be “to produce and distribute films designed to interpret Canada to Canadians and to other nations.” The National Film Board would become a powerful creative and socially relevant antidote to products of Hollywood and New York in Canadian theatres and on Canadian television screens.

The Canadian Film Development Corporation (now known as Telefilm) was established in 1968 to create a Canadian feature film industry, and in 1983, it took on the additional responsibility of supporting the development of an independent production industry in television. Telefilm has been a critical partner in just about every significant Canadian feature film and independently produced television program since that time.

Today, a number of Canadian cultural industries, including broadcasting and the independent production sector in television, are flourishing. Ironically, the very success we have had in using public policy tools to create these industries has led some to conclude that it is now time for governments to withdraw and to let the marketplace take over – to compete on strictly commercial terms for the hearts and minds of Canadians.

This is a dangerously wrongheaded conclusion: we still have a small and fragmented audience bordering the world’s largest entertainment market; we still have enormous difficulty financing indigenous film and television production domestically; we still have a limited number of Canadian feature films and Canadian dramas available for Canadian consumption; and we still have fundamental problems communicating across 5,000 miles of scattered population centres.

The facts speak for themselves. We own radio and television networks, but in English Canada most of the stories available to us are American. We own one of the most elaborate and sophisticated cable systems in the world. But only about 14% of all the fiction it carries in English Canada is Canadian. Almost all our film theatres are foreign owned, and about 95% of the films shown in English or in French are foreign. Most of the large film distribution companies operating in Canada are under American control, and they earn 85% of all the revenue from distribution to movie theatres. We have developed a feature film and television production industry, but a good deal of its product is created specifically for the American market, without reflecting a Canadian reality.

The bottom line is that the vast majority of all the entertainment offered on Canadian television and theatre screens is American and this is unlikely to change. Many Americans are worried about what television and radio offer

to them and to their children. At least *their* programming does not originate in a foreign country.

A major public policy question facing Canadians today is how to ensure that the communications systems of the near future, particularly the information highway, meet Canadian goals and not become what American radio threatened to be for Canada in the thirties.

A recent report by Canada's Information Highway Advisory Council entitled *The Challenge of the Information Highway* has dealt with this development and recommended a general policy framework to the Government. In a chapter entitled "Canadian Content and Culture: A strong Canadian presence," the report recommends that:

Canadian cultural policy must be reaffirmed and strengthened in relation to the new information environment.

The Information Highway is a natural extension of the current broadcasting and telecommunications environments.

In the face of ferocious competition from foreign sources, Canada's success is primarily due to its cultural and broadcasting policies.

We must ask ourselves realistically where the content provided on the information highway will come from. It will not come from the technology itself, that is from the hardware. It was always clear that regulatory systems by themselves would not be sufficient to stimulate the production of sufficient Canadian content for our needs in both languages. We think, as indeed does the *Canadian Content and Culture Working Group*, that regulatory systems are still needed. But these will still be insufficient. Creative, productive institutions, whose mission is serving the social and cultural needs of Canadian citizens, will be more indispensable than ever.

We need Canadian programs and films to enable our citizens to understand one another, to develop a national and community consciousness, to help us shape our own solutions to social and political problems, and to inspire the imagination of our children and express their hopes.

The issues facing Canada today – issues of civic understanding, of tolerance and acceptance, of diverse cultural development, of national pride and confidence, and of our reputation in the world – are only exacerbated if so many of

our entertainment and cultural products are either imported from other countries, or imitate another country's stories and formats for commercial reasons.

A stable democracy presupposes respect and understanding, a sharing of views and a common political language. Citizens need to appreciate one another and to enjoy what they have in common. They need to join in shared celebration of heroes and accomplishments, and to accept and respect the differences that exist. Understanding and tolerance are basic values that societies must work on constantly; they are not given. Like liberty, they are a prize that must be won by constant effort.

Our national cultural institutions, like those of most western democracies, are also based on a long standing recognition and belief in freedom of expression. No social understanding can endure and develop without expression which is free of commercial or political constraints. The Canadian Broadcasting Corporation, the National Film Board, and Telefilm, and others like the Canada Council, have been symbols of a well-established national policy, and of a respect for freedom of expression and unfettered commentary. This approach has been based on the profound conviction that it is the wisest policy in the long run. It represents such a force that it is worth putting up with the risk that some may abuse it. This is one of the most important virtues that a country can take pride in.

We have also recognized that the individual dignity of each Canadian is the very foundation of the country – that all citizens are equal and equally worthy of respect; and that they should be treated not just as consumers, but also as active and intelligent citizens with spiritual and aesthetic needs. That is why Canada's broadcasting legislation refers to culture and enlightenment as well as national consciousness and identity.

The three institutions we have been asked to examine have been and should continue to be the guarantors and protectors of these values. They deal with news, information, art, entertainment, knowledge, sports, education, drama, science and technology. By definition their language is that of the mass media. Theirs is a popular idiom, their style is destined to reach large sections of society. They use technologies that facilitate this kind of communication. They have all the elements to be the great pedagogues of our age, even as they act as entertainers and reporters of events great and small.

But our basic contention in this report is that these public organizations, so central to our national consciousness and development, are in grave danger of becoming unable or incapable of meeting these core duties; let alone the new duties imposed by the proliferation and technological revolution in



both delivery and production systems. One of the principal reasons is the current and ongoing fiscal restraint, a factor that the Committee was not only asked to take into account, but one that, of necessity, influenced our analysis and recommendations.

We believe that the status quo for the CBC, the National Film Board and Telefilm is not acceptable to the federal government, to the many employees of these institutions, or to the public who no longer accord them unquestioned support. Even in the absence of this strategic review process, major changes would be forced on all these institutions by the simple fact that public budgets will continue to be limited and under close public scrutiny.

There is general agreement that these institutions must endeavour to be more productive and more cost-effective. But this is only a beginning. Our real goal in reviewing these institutions must be to ensure that, with the scarcity of public funds, they are perceived by all Canadians, and by the Canadian government, as indispensable public services. To survive into the 21st Century, these institutions must be “public places” – not the property of any particular group inside or outside the organization.

This principle is particularly important when the cost to taxpayers for public places in broadcasting, film and television production is so high, and even more so in periods when there is a need for fiscal restraint and the competition for public funds is so intense. That is why institutions such as those the Committee is reviewing must be perceived as fulfilling an indispensable public purpose by Canadians and their government.

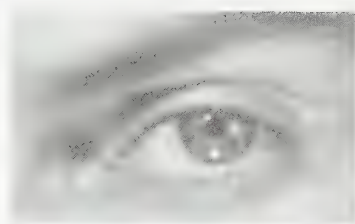
It is to that ideal that our recommendations for these three organizations are directed.



II.

THE CANADIAN  
BROADCASTING  
CORPORATION

THE MANDATE REVIEW COMMITTEE







## I. A NEW CBC

DISTINCTIVE • CANADIAN • NON-COMMERCIAL  
• PUBLICLY OWNED • ROOTED IN THE REGIONS

At this sensitive moment in our history, Canada is attempting to resolve a number of difficult social, economic and political problems, while at the same time struggling to redefine its future as a country. It is in that context that our committee set out to re-examine the role of the CBC and to bring forward recommendations for a revitalized organization. The CBC has played an invaluable role in the history of both English- and French-speaking Canada, and we firmly believe that it can play an equally important role in the future.

It will be clear from this report that we favour significant changes for the CBC. Most of all, we recommend ways we believe will finally lead to the implementation of policy objectives advocated for many years by a succession of royal commissions, broadcasting studies by distinguished Canadians, and committees of the House of Commons and the Senate. As we will try to demonstrate, these basic objectives cannot be achieved without making a number of fundamental changes in the Corporation.

Notwithstanding these proposals for change, no one can approach the subject of the CBC without being reminded of its profound impact on Canada and on Canadians over the past 60 years.

The CBC's programming has informed, enlightened and entertained the vast majority of Canadians over that period of time. Older listeners will remember the CBC's front-line coverage of World War II in Europe and Asia, and the voices of correspondents such as Matthew Halton and Marcel Ouimet, as well as the reports and commentaries of Lorne Greene and Louis Francoeur. Today, many Canadians know the CBC as a major source of news on morning radio, with *World Report* and *Le Radiojournal*, and in the early evening as they drive home from work; and through mass audience television news and current affairs programs like *The National* and *Le Téléjournal*.

Many Canadians have had access to the arts primarily through the CBC's radio and television services in English and French. There have been no geographical or financial barriers to listening to *Anthology*, *Ideas*, *State of the Arts*, the dramas played on *Morningside*; the dramatizations of the *Deptford Trilogy*, *the Diviners*, and *Joshua Then and Now*; or to watching the Stratford Festival, Norman Campbell's ballet productions and *Adrienne Clarkson Presents*.

In French, superb cultural series like *Sur toutes les scènes du monde*, *Le Téléthéâtre* and *Les Beaux Dimanches* have ranged from symphony concerts, ballet and opera performances to the full spectrum of drama by playwrights such as Molière, Giraudoux, Camus, Eugène Cloutier, Françoise Loranger, Antonine Maillet and Michel Tremblay.

Similarly, for many the CBC is associated with information and ideas – whether in science through programs such as *The Nature of Things* or *Science-Réalité*; in agriculture with programs such as *La Semaine Verte* or *Country Canada*; in business and finance through *Venture*, *Marketplace*, *Les Affaires et la Vie* and *La Facture*; and in politics and public affairs, through *the fifth estate*, *The House*, *Premier Plan*, *Le Point*, *As it Happens* or through weekly documentaries on *Witness*.

As adults, most Canadians have fond memories of CBC children's programs over the years: in English, shows such as *Mr. Dressup*, the *Friendly Giant*, and the *Elephant Show*; in French, programs like *Bobino*, *Fanfreluche* or *Pépinot et Capucine*. Sports fans continue to think of *Hockey Night in*

*Canada* and *La Soirée du Hockey* as important Canadian institutions, and remember to this day Paul Henderson's winning goal against the Soviets in 1972 on CBC television.

Canadians who love music know the CBC's role in serving the full spectrum of musical taste – from the commissioning of new Canadian compositions and the broadcast of classical works... to folk, jazz, popular music and the most innovative new music. Canadian films reach their largest audiences through CBC television. And both networks lead the way in presenting indigenous television drama, with series and specials such as *A Gift to Last*, *Road to Avonlea*, *Le temps d'une paix*, *Blanche* and *Dieppe*.

In entertainment, the CBC broadcasts comedy and variety programs, as well as music and popular drama. Individual favourites vary, but the list over the years includes *The Royal Canadian Air Farce*, *This Hour has 22 Minutes*, *Rita MacNeil*, *Wayne and Shuster*, *Les filles de Caleb*, *Chez Miville*, *La Petite Vie* and *Juste pour rire*.

Canada would simply not have been the same without the CBC there to provide a forum for our debates, a source of support and a showcase for our most talented artists, and a mirror in which we have seen ourselves. It has provided the vast majority of our best and most distinctive programming, and it has provided Canadians with a compelling alternative to the flow of American programming crossing our border.

Our examination of the CBC, like the NFB and Telefilm, was to be a "fundamental review." We were also asked "to take into account the requirement to support the CBC as a strong public broadcaster." We were aware, as well, of the need to take "budgetary constraints" into account. We took that advice seriously, as will be evident in the section of our report on CBC finances, called *Funding the New CBC*.

Nevertheless, given some potential conflict between CBC as a "strong public broadcaster" and the need for "budgetary constraints," we thought our responsibility could best be met if we spelled out the requirements for a strong CBC... and then indicated the minimum budgetary level below which the CBC would be dangerously weakened, and could no longer perform the range of public services that will be needed for the next decade in our history.

We also asked ourselves the following fundamental questions: why was the CBC created in the first place? Does the original rationale for the CBC still exist in a multichannel environment? What changes are required at the CBC to allow the organization to adapt to its new environment?

Finally, with the help of expert advice, we carried out a thorough review of the financial history of the CBC over the past ten years. We examined the cost of achieving an adequate level of service in the years to come. We looked at ways to improve the CBC's overall efficiency. And finally, we looked at whether the current system of funding the CBC – through annual Parliamentary appropriations and a heavy reliance on advertising revenue – is the most effective way of funding our national broadcaster in the 21st Century. This also led us to an examination of alternative funding sources for the CBC, as a potential way of replacing Parliamentary appropriations and advertising gradually over the next few years.

## ORIGINS

The conviction that Canada has to have a public broadcasting system, providing a strong voice for Canadians in their own country, goes back to 1929, when a royal commission chaired by Sir John Aird, then President of the Canadian Bank of Commerce, tabled its report.

The Aird Commission was driven by what is now a familiar Canadian lament. Concerned about the rapid expansion of American network radio, the flow of American programming across the border, and the fear that "Canada was fast becoming a mere satellite of American broadcasting," the Aird Commission concluded that a publicly owned broadcasting system had to be created. Only a public broadcaster, Aird argued, could guarantee that a reasonable amount of Canadian programming would be available. The wealth and expansionist tendencies of the American system were felt then... as they are now... to be a very real threat to the establishment and maintenance of Canadian broadcasting. One of Aird's arguments was particularly revealing:

The potentialities of broadcasting as an instrument of education have been impressed on us; education in the broad sense; not only as it is conducted in the schools and colleges, but in



providing entertainment and informing the public on questions of national interest.

Aird's conclusions were endorsed by the R.B. Bennett Conservative Government in 1932 when it created the Canadian Radio Broadcasting Commission, and subsequently by the newly elected Liberal Government of Mackenzie King in 1936, when it established the Canadian Broadcasting Corporation. This was the first of many examples of political consensus in broadcasting policy that was to endure through many decades.

Over the years, many commissions of inquiry reinforced this position: the Massey-Lévesque Commission, the Royal Commission on Broadcasting of 1957, chaired by Robert Fowler, the 1965 Committee on Broadcasting, also chaired by Robert Fowler, and the Caplan-Sauvageau Committee of 1986.

Two quotes illustrate these themes eloquently. One is from a former Liberal Cabinet Minister, Lionel Chevrier, who commented in 1952:

The essential reason for public development of television in this country is that we want both popular programs and cultural programs to be produced in Canada, by Canadians, about Canada; we want programs from the United States, but we do not want, above all, that these programs will come over and be in a position to monopolize the field. It is perfect nonsense for anyone to suggest that private enterprise in Canada, left to itself, will provide (the range of) Canadian programs. People who invest their money... will certainly invest it where it will make a profit – by importing American programs.

And the special Senate Committee on Mass Media of 1969 stated:

The CBC is so fundamentally a part of Canada's communications that it could not be removed or substantially weakened without a very wide ring of repercussions through the rest of the media, and through our society.

## THE CURRENT ENVIRONMENT

If anything, the circumstances which gave birth to the CBC are even more pronounced today. American entertainment is a force that is growing, not diminishing. American movies and television programs reach us in many more ways: not just through theatres and a 60-channel television universe, but also through the VCR, the computer, video games, and through merchandise of all kinds, from dolls to fast food promotions.

And while Canadian private broadcasters and specialty services make an important contribution to Canadian broadcasting, they are required to perform a remarkable juggling act. They have to maintain a high level of American content in prime time for commercial reasons; they have to pay a great deal of attention to ratings, advertisers and investors; and they have to adopt a prudent, cost-effective approach to taking on major, high cost Canadian production obligations, particularly in view of the limited revenue potential from our small Canadian market.

*In this highly competitive environment, therefore, we believe that there will be an even greater need for a significant part of the broadcasting landscape to be clearly dedicated to public service... and to the reflection of Canadian voices, values and experiences.*

There are commentators who believe that the proliferation of new radio and television services brought about by technological changes means that public service broadcasters are no longer necessary; that the forecast 200 or 500 channel universe eventually will provide *all of the choices* and the full range of services that any country might need.

We have a fairly straight forward response to this hypothesis – there's simply no evidence to support it. It's not happening in the United States, the richest market in the world, even though some American cities already have 100 TV channels or more. And we can't see how it could happen in a much smaller market in Canada – where the financing of Canadian production is already difficult, and where it will inevitably become more complicated with even greater audience fragmentation.

In the committee's view, the proliferation of channels might lead to more choice, but it is unlikely to lead to more Canadian drama, more Canadian documentaries, more original Canadian arts programs, or more educationally driven children's programs.

Canada has no other national medium of communication comparable to the CBC. It is the only medium of information, education, enlightenment, culture and entertainment, which operates all day from coast to coast, on radio and on television, in our two official languages. With all its shortcomings, the CBC talks to more Canadians about Canada than any other medium. We demonstrate this at some length later in this chapter.

The reasons why Canadians need the CBC have been articulated over and over – in royal commissions and in Parliament. Generally speaking, the political support for the CBC has crossed party lines for most of the Corporation's 60-year history. The broad principles of the 1968 *Broadcasting Act*, for example, were approved almost unanimously by Parliament.

## TENSIONS & CONTRADICTIONS

It is the actual application of those broad policies that have caused endless debates over the years. There have been constant tensions and contradictions between the objectives of Canadian public broadcasting on the one hand, and the actual practices of the CBC on the other. And the rapidly changing competitive environment within which the CBC has operated has made these tensions more obvious.

These changes include: the rapid expansion of cable across the country, delivering more and more American channels to Canadian households; the proliferation of new licences for private radio and television stations, in English and French; the introduction of pay television; the development of a thriving independent production industry that began to share public funding with the CBC, and insisted that the CBC go "outside" for more and more of its production; the emergence of new American and Canadian specialty channels; and the rapidly escalating cost of acquiring American programs and producing original Canadian programs, prompted in large measure by the increased domestic competition in Canada. As a result, the CBC television and radio services have had to come to terms with a fundamentally different environment in the past 20 years.

In the face of increased competition, the CBC adopted very different policies for radio as compared to television. English and French CBC radio remained very distinct from commercial radio, and adapted very skillfully

to the changing environment. Both are now viewed as successful models of public service broadcasting. They each have their unique characteristics, but they have one critical thing in common: most Canadians think they correspond to a public service model. Why?

Because they are distinctive, popular and enjoy a high level of public loyalty. It would not enter anybody's mind to say that they even *resemble* private radio. The quality of their programs makes them obviously different from other stations. They are non-commercial. Their programming flows from a clear mandate, and not from a series of choices based on commercial considerations. The networks and their stations are publicly owned, and they can reach their listeners without having to make commercial compromises (as is the case with CBC television privately owned affiliates). Finally, they are national, not only because they reach all parts of the country, but also because they have deep roots in communities across Canada.

In two stages, the CBC revolutionized its radio programming strategies, first in the early 1970s, and again in 1975. In 1974, encouraged by the CRTC, CBC radio abandoned the advertising arena to private radio and became non-commercial. Gradually, it created the radio services that we now know, and attracted a reasonably large share of the Canadian radio audience.

CBC television followed an entirely different course. The differences arose from a number of factors, many of which were beyond its control. For the first 20 years of its existence, CBC was the only television service for significant parts of the population. During that period, the CBC felt obliged to carry a wide cross-section of American programs in its schedules. Moreover, as TV costs increased, the Government actively encouraged the CBC to attract additional advertising revenue to reduce the need for direct government funding. Finally, even to this day, the CBC has been unable to replace many of its affiliates with stations of its own. These private affiliates operate on a commercial basis, and it has led to an uneasy relationship between the CBC's role as a public broadcaster and the affiliates' desire for commercially attractive schedules.

Funding fluctuations have also imposed additional pressures on the CBC. Over the past ten years, Parliamentary appropriations to the CBC fell further and further behind the consumer price index, and the buying power of the appropriations dropped by more than 23%. The CBC responded by

increasing commercial revenues dramatically between the mid 1980s and the early 1990s, until the recession and increased competition took its toll – and its advertising revenues levelled off.

CBC television has always relied on advertising revenue, and over time, it became an increasingly important way for the corporation to balance its annual budget. Today, advertising represents about 50% of the English network program expenditure, and almost 40% of the French network program expenditure. The combination of Parliamentary cutbacks, increased competition and a difficult economy forced CBC television into a more commercial posture, and this has had a profound effect on its program schedules. It has meant more American programs in its daytime schedule for the English network; more entertainment and sports on both networks; less emphasis on children's programming (on English television); and a general reluctance to take risks with minority programming of any kind.

This has turned the CBC into what can only be described as a hybrid. As one columnist said recently, these factors have caused CBC television to function “unsteadily in a grey zone between the private and public sectors” (John Geddes, *The Financial Post*, Nov. 17, 1995).

## UNENDING DEBATES

We believe that the tensions and contradictions between CBC's public service objectives on the one hand, and its commercial imperatives on the other are at the heart of the endless debate about CBC television. It is a difficult debate to reconcile, primarily because the underlying issues have been left unresolved for too long.

It is also a debate that has shaped many of the comments and recommendations that we heard as we went across the country. As can be seen from a small sample of the list of suggestions that we received, the comments are familiar and frequently contradictory:

- CBC English and French radio are a role model for what CBC television should be;
- CBC television is too much like commercial television;



- CBC television should be non-commercial and return to its public service roots;
- CBC television should operate like a business;
- CBC television should operate as a national service in English and French, and close down its regional stations;
- the CBC has to be firmly rooted in the regions in order to be a truly national institution;
- CBC television should drop all professional sports and the Olympics and let the commercial networks carry them;
- CBC should drop all of its American programs;
- CBC English and French services should retain their unique character;
- CBC television should be more distinctive, provide more quality drama, more children's programs and stop competing with the private sector;
- CBC's private affiliates should be abandoned and replaced by CBC re-broadcasters;
- CBC's owned and operated stations should be privatized;
- CBC's present distribution system should be abandoned; all of CBC's television services should be distributed by satellite and cable, and existing transmitters should be sold.

As a Committee, we looked very carefully at all the opinions that were presented to us in writing and through our consultations. We agreed with many of them, and found others unrealistic or undesirable. We have endeavoured to highlight the options that we consider essential for the survival and development of a new CBC, and also to demonstrate how urgent their implementation is. In other words, we considered long-standing objectives and principles; we took into account the contemporary technological and fiscal context; and we tried to come up with concrete solutions for the implementation of the often-stated Canadian objectives.

In doing so, we are aware that the perspective of the CBC's senior management is dictated by the obligation to cope with the current budget reductions. However, our terms of reference are different: they are to do a fundamental examination of the CBC, to recommend measures necessary to maintain a strong CBC and to consider potential alternative sources of revenue. We do propose some changes to the legislation, but apart from the question of a new funding system, most of the changes that we recommend can be implemented without legislative changes. This chapter will detail our views and recommendations about the CBC. But first we wish to state some general considerations that have guided our deliberations.

#### DISTINCTIVE & INDISPENSABLE

In our consultations and research, we saw ample evidence that CBC radio, both English and French, is held in high regard by listeners. Misgivings about the CBC are almost entirely confined to television, both English and French. Ironically, those who manage CBC radio become a little exasperated with this view, because it deflects attention away from the problems of CBC radio. We are fully conscious of this and, as will be seen later, we do not intend to overlook radio.

CBC radio had been serving Canadians for more than 15 years when CBC television came along. It has been almost entirely Canadian from the beginning and both its English and French services have developed their own unique character. At the same time, through its information programs and both popular and classical music programs, it has also kept Canadians aware of the rest of the world. It is deeply rooted in the regions of the country. About a quarter of the English radio schedule as a whole is made up of local programming, and 60% of the programs on the English Stereo Network originate from various regional production centres. It is a lifeline operating in two languages, from one end of Canada to the other.

At the same time, however, there is a good deal of skepticism about the ability of CBC television to deal effectively with the cultural, educational and social needs of Canadians. The audience research makes it clear that most Canadians watch both commercial and public television. But we also heard from a lot of people who wondered why large amounts of public funding should be spent on public television if it does not offer a clear alternative to the commercial model. Our recommendations throughout this chapter on

the CBC are based on what we believe a strong public broadcaster can and should be. It is the *potential* of public television that has been our focus – what it could do for us, as Canadians, over the next decade if we use it well.

*Television has an extraordinary ability to democratize culture and to deal with all aspects of public interest. It can be useful and serious and entertaining all at once. It can provide knowledge and information and feed our intelligence. It can also cater to our imagination and to our feelings. It can mingle popular programs like sports and popular fiction with the highest forms of drama and music for the same audiences. It can appeal to large sections of the public, whether in big cities or in remote villages. A concert or a drama aired on television not only reaches a larger audience in one evening than a large metropolitan arts centre reaches over an entire year; but it also tends to reach viewers who, because of predisposition, geography or finances, might otherwise never have been exposed to such fare.*

However, the problem with CBC television is that we as Canadians – and not only the CBC's management – have allowed this public service to become a hybrid, a broadcasting organization that is neither a real business, since it requires substantial government subsidies, nor a real public television service. It is part public and part private; part commercial and part non-commercial; and on the English side, part Canadian and part American. Some say, with only slight exaggeration, that it is a subsidized commercial network. Over the years, it has had to make too many compromises in order to earn advertising revenues.

One of the compromises, not known generally by those who receive the full television service from an owned-and-operated CBC station, is that about 16% of the Canadian public get CBC television programs through 25 affiliated commercial stations. This has always been a mixed blessing for the CBC. It has the advantage of getting the CBC program service delivered inexpensively to a significant portion of the audience; but it also involves continuing pressures from the affiliates to keep the program service as commercial as possible; and it means that the CBC has to live with the reality of affiliates replacing some CBC programs with more commercial fare in peak viewing periods, and scheduling the CBC programs in less favourable times.

Our view of CBC television coincides with comments that have often been expressed over the years and were even more forcefully expressed to us in our consultations across the country: it simply must become a much more distinctive public service.

At a time when public funds are scarce and commercial radio and television options are becoming more numerous, we feel the public and its elected representatives will find it more and more difficult to fund the CBC adequately if its services are not perceived to be distinctive and indispensable. We do not interpret this to mean airing only programs that other broadcasters will not present. The CBC should not be confined to any program ghetto. Its programs should be intended for all Canadians, not for some special category of viewers.

While all aspects of Canadian life should be of interest to the CBC, the CBC should not attempt to be all things to all people. **Its distinct quality should result not from the choice of subject matter for its programs, but from the approach to subject matters. It should also result from the right balance between various areas of programming and this balance should be dictated by the needs of the whole public and not by commercial constraints.**

CBC's distinctiveness must be reflected in the quality, intelligence, originality, creativity and independence of spirit which its programmers bring to the subjects they address.

#### DISTINCTIVE & NON-COMMERCIAL

As we mentioned earlier, the CBC television financing system has created a vicious circle, one which may have lethal consequences. The problem stems from CBC's increasing need for advertising revenue, particularly as Parliamentary appropriations have been reduced, in constant dollar terms, over the past decade.

This creates a schizophrenic approach to programming in both English and French television. It is why the CBC carries too much professional sports. It is why American programs (or American-style programming) have occupied a significant part of prime time on the English network until recently, and still occupy so much of the afternoon schedule. It is why the CBC's English network does not schedule more children's programs in the late afternoon; it's why more specialized or "mandate programming" like arts and science programming take up less and less of the prime time schedule; and it's why there is so little regionally produced programming on the network. In each

of these cases, it is audience sizes and potential advertising revenues that dominate scheduling decisions.

It is also why many Canadians, including members of Parliament and government officials, contend that CBC television is too much like commercial television – in spite of its large public subsidy.

Unfortunately, the effects of commercialism on programming are likely to *increase* in the wake of current budget reductions. It is almost inevitable that CBC management will look at ways to offset those cuts by increasing its advertising revenues, unless an alternative funding system is found. The CBC will then still receive a sizeable Parliamentary appropriation, but *both* its supporters and detractors will claim that it is neither distinctive nor indispensable. The Committee is convinced that it is only a matter of time before the commercial imperative does irreparable damage to CBC television.

We therefore believe that another way of financing the CBC must be found. After observing its development for many years, we believe that under the present system of financing, the CBC mandate set out in the *Broadcasting Act* cannot be achieved. This dilemma was expressed quite forcefully by a previous president of the Corporation:

You can't ask someone to manage public TV, public broadcasting, and at the same time say "go finance yourself from commercial advertising." We're straddling both sides of the street. (Gérard Veilleux, former president of the CBC. Interview with Peter Pearson, *The Gazette*, February 15, 1992.)

*If the CBC must continue to rely on a high level of advertising revenue, it will never be really distinctive; it will not meet its obligations to provide a quality alternative to commercial broadcasting; and it will not contribute to "shared national consciousness and identity." It will continue to be torn between its cultural mandate and its commercial imperative.*

We were encouraged by the fact that the Government stipulated in our terms of reference that we were to look at "the possibility of alternative sources of revenue." We have devoted a considerable amount of attention to this matter and we will indicate our conclusions and recommendations in a later section.



CBC television must become as obviously Canadian as CBC radio is – during the whole day, not just prime time. At this point, English television's full-day schedule is barely exceeding the CRTC's required minimum 60% level of Canadian content: for the 1994-95 season, the English network's Canadian content stood at about 65%. We are pleased, therefore, that the President of the CBC recently announced that all prime-time American programs would be dropped within the coming year.

Cultural development has been described as “the process by which human beings acquire the individual and collective resources necessary to participate in public life” (Raboy, Bernier, Sauvageau, Atkinson, *Canadian Journal of Communication*, Vol. 19, 1994). With that in mind, Canadian programming on the CBC should be intended, first of all, for the enlightenment and personal development of each and every citizen. It is essential for the active participation of Canadian citizens in the affairs of their country.

Canadian programming is also necessary for community and national reasons. It should be based on a profound curiosity about things Canadian, as well as about the rest of the world. An understanding of the world, however, starts with an understanding of ourselves, of those near and dear to us, of our neighbours and compatriots. A vast country like ours desperately needs a medium of communication like CBC radio and television to enrich its citizens – not only as individual citizens but also as members of a community, a region, a province, a country. No other institution could do more to promote understanding and sharing among Canadians than the CBC. It should of course make room for programming from other parts of the world when there are significant world events, or when foreign programs and films are of a quality and originality that warrant CBC scheduling.

The need for CBC programming to be Canadian is not part of an anti-American attitude. The simple fact is that American programs are abundantly available on private Canadian stations, not to mention on the many American channels entering Canada through cable or satellite systems. In fact, it is difficult to find American programs that are not easily available in Canada.

However, it is a truism that American programs do not help make CBC television distinct. On the contrary, they only make CBC more like the

commercial networks. They do not add to choice and diversity. Canadians are not opposed to American culture – nor to any other culture. The CBC should expose Canadians to the cultures and values of other countries. But first of all, it should reflect their own culture and the many values that make up the fabric of Canadian society.

The requirement that the CBC should reflect “*the different needs and circumstances of each official language community*” is a fundamental element of the *Broadcasting Act*. In our consultations, we encountered nothing but support for this principle. Apart from the education system in Quebec, probably no other cultural institution, federal or provincial, has done more for the development of culture among French-speaking Canadians in the last 60 years than CBC radio and television.

CBC French television still enjoys impressive audiences. In discussing French-language television later in the report, we will explain how the need to earn commercial revenue has been pushing its programming too much in the direction of light entertainment, and has been preventing it from performing as good a service as it obviously could in order to remain at the core of the Canadian French-language culture. Notwithstanding this, SRC’s ability to broadcast some ten hours a week of popular drama in French merits recognition.

In fulfilling the CBC mandate, the English and French services face different circumstances, needs and interests in their audiences. This has always been recognized and the two services have each developed unique personalities. The Corporation has established the proper structure to maintain such a policy, an achievement which we believe the CBC can be proud of, and should continue.

One aspect of the CBC’s mandate is the obligation to tend to “*the needs and circumstances of English and French linguistic minorities*.” This was underscored during our consultations across the country and in the many briefs that we received. The people we met also emphasized sections 41 and 42 of the *Official Languages Act*, which commit the federal Government to promote the full recognition and use of French and English in Canadian society and to assist in the development of francophone and anglophone communities that live in a minority situation. We wholeheartedly agree.

The *Broadcasting Act* contains the following obligation:

... the programming provided by the Corporation should reflect Canada and its regions to national and regional audiences, while serving the special needs of those regions.

We think it is of the utmost importance that this aspect of the CBC mandate be maintained. Some commentators argue that in order to reduce costs, the CBC should become strictly a national network, at least in television, and that its regional stations should be closed or sold. We disagree strongly. In our consultations throughout the country, the positive view of CBC's regional role was expressed forcefully by everyone, including provincial and federal politicians. In Toronto, Ottawa and Montreal, we occasionally heard a different opinion on this subject.

Our view is that the CBC will not be able to "contribute to shared national consciousness and identity" if people from various parts of the country do not hear or see themselves on CBC. The CBC cannot be truly national if it is not strongly rooted in the regions. By that we mean not only that the regional radio and television stations of the CBC should be able to contribute to network programming, but also that they should program for the particular needs of their regions.

Listeners and viewers want to feel as though the station that speaks to them is part of their community. This is obviously not the case for specialty networks, such as Newsworld, RDI and CNN, which operate on a national scale and are not expected to address local concerns. Mainstream commercial broadcasters, however, could not operate without a regional and a local presence. If anything, they are trying to get even closer to their audiences. A public broadcaster is no different in this respect. It should not be expected to play a useful public role with a basic handicap – trying to address the whole of Canada from Ottawa or from two major metropolitan centres, Toronto and Montreal.

## NATIONAL CONSCIOUSNESS &amp; IDENTITY

However, the *Broadcasting Act* says that the programming provided by the Corporation “should contribute to shared national consciousness and identity”. This statement has been the subject of much debate over the years. Some CBC critics talk as if the CBC has an obligation to embrace the policies of the government of the day. Such a role for the CBC is unthinkable. The CBC is Canada’s public broadcaster, it is not the Government’s broadcaster.

Because the CBC is the largest journalistic organization in the country, it has an added responsibility to abide by the general ethical rules of democratic journalism. Its standards must be unimpeachable, because of the enormous power it derives from its size and public financial support. That is why over the years the CBC has developed elaborate professional journalistic policies, which are published in a handbook entitled *Journalistic Standards and Practices*.

In the final analysis, we believe that the best way for the CBC to “contribute to shared national consciousness and identity” is to be endlessly curious about Canada and all things Canadian. Moreover, the CBC is national in scope and supported by all Canadians. Its shareholders – not the Government, but all Canadians – have a right to expect more from it: more attention, more curiosity, more sensitivity, more dedication in telling Canadians about themselves and about what is going on everywhere in the country.

Because the ultimate power in democracy rests with the people, we have to believe that if the CBC abides by this obligation, with imagination and dedication, it will contribute to the good of the country. **This is what our long standing confidence in freedom of expression really comes down to – the development of a public broadcaster truly committed to making our voices heard.**

## 2. RADIO

### 2.1 A SUCCESS STORY

As we have just mentioned, CBC radio reflects the principles we believe should govern the CBC and public broadcasting. Its programming is entirely different and distinctive from that offered by private broadcasters. It is informative, intelligent, diversified, culturally oriented and overwhelmingly Canadian. It is strongly rooted in the regions. It is free from the constraints of advertising. It is publicly owned. To this Committee, it epitomizes what we feel is indispensable about public broadcasting.

More than any other broadcast medium in this country, the CBC's four radio networks form links from region to region, from program to program, that make them instantly recognizable. A CBC listener can travel from one end of Canada to the other, turn on the radio and feel right at home with Peter Gzowski on *Morningside* or Vicki Gabereau or tune in to *Les Actualités* or *275-Allo*. For many listeners, the beauty of CBC radio is it can transport them around the corner for an analysis of regional politics... or to the farthest corners of the universe on a science show like *Quirks and Quarks* or *Les Années Lumières*. Each service has developed and maintained a unique character and style.

The diversity of CBC radio is reflected in its treatment of both highly specialized topics and those of general interest... in its blend of local, regional and national programming... and in its range of musical genres, from symphonic and electronic to jazz and rock.



The CBC has divided radio into two distinct services in each of the official languages, one concentrating largely on information, the other largely on performance programming. The Radio Networks (transmitted mainly on the AM band) concentrate on the presentation of news, current affairs and information, as well as music, while the Stereo Networks (transmitted mainly on the FM band) provide arts programming, including music, drama, comedy and arts journalism. The four services are delivered by 33 English-language stations and 16 French-language stations, all owned and operated by the CBC, as well as seven affiliates and two community radio stations.

CBC radio has managed to exemplify the five attributes that we feel must underpin not only public radio, but public television as well. These can be summarized as:

- distinctive
- overwhelmingly Canadian
- non-commercial
- publicly owned
- national, with strong regional roots.

Many Canadians and Canadian institutions have paid tribute to the quality of CBC radio. The Canadian Radio-television and Telecommunications Commission (CRTC) had this to say when it renewed the licences of the four radio networks in March 1993:

The Commission considers that the Corporation, in a time of financial restraint and uncertainty, should be commended for the general excellence of its radio programming, which stands as a model for broadcasters in Canada, and around the world.

## HOW RADIO HAS SUCCEEDED

CBC radio was not always as successful or distinctive as it is today. In the late 1960s, the radio networks faced a programming and positioning crisis similar to the one CBC television faces today. Within a few years, it had managed to rebuild and reshape itself from the ground up. The linchpin was the decision to withdraw from the sale of commercial time on the radio networks. This decision was formalized in 1974 by the CRTC in the conditions it attached to the CBC's network radio licences.

The non-commercial nature of CBC radio is clearly a crucial factor in the breadth and quality of its programs. Relieved of the pressure to capture listeners from private radio competitors and to schedule programs primarily for commercial reasons, CBC's radio producers have instead focused on the central task of the public broadcaster: to serve the interests of their audience, including those with specialized interests, in a way that provides stimulation, insight and enjoyment.

One other important aspect of radio's success has been its blend of national, regional and local programming. Radio has proved to be a flexible and cost-effective way to reflect the regions. At least seven hours a day of the broadcast schedule are devoted to local programming. Overall, in the 1994-95 program year, 44% of the programming resources of English radio were allocated to serving the regions through a mix of local and regionally produced network programming. On the French-language side, 43% was spent on programming for local and regional audiences.

One clear measure of radio's success lies in the stability of its audience. None of the CBC's networks or stations dominates the market. But during a decade-long period when the shares of both radio and television broadcasters fell dramatically, CBC radio has held on to its audience. The English Radio Network accounted for 7.8% of radio listening in the spring of 1995, with the combined share of the English Radio and Stereo Networks representing 11.4% of listening. This was up slightly from 10.5% in the fall of 1984, which the Committee regards as a strong performance given the trend in listening away from AM (which dropped from 64% to 44% of all radio listening between 1984 and 1994).

On the French-language side, the Radio Network accounted for 6.7% of radio listening the spring of 1995, compared with 6.1% in 1984. The combined share of listening accounted for by the two French-language radio services among Francophones in the spring of 1995 was 9.5%.

Nevertheless, for reasons we will examine more closely in the section on success measures for the CBC, it's important to look at what the broadcasting industry refers to as the "reach" of the Corporation's services – namely, the number of Canadians who at some time during the week tune into the service. Using this measure, the combined weekly reach of the English Radio and Stereo services in the fall of 1995 was 3.6 million, up from 3 million in the

fall of 1985. The combined weekly reach of the French-language Radio and Stereo services has been relatively steady at about 900,000 for the past decade.

*CBC French radio plays a particularly important role in that it is the only national, public radio service in North America which broadcasts exclusively in French. In many parts of Canada there are no other radio services in French: British Columbia, the Prairies, Nova Scotia, Newfoundland, and Prince Edward Island.*

Support for CBC radio is found not only in listening figures, but also in the positive attitudes expressed in surveys. In a national survey carried out by the CBC in 1994, nine in ten respondents said they were satisfied with the CBC radio services available to them and five-in-ten "very satisfied" (CBC Research, AMS, 1994). Intense loyalty is also evident in the high proportion of time CBC listeners spend with public radio: almost 12 hours a week. A majority of Canadians – including those who do not listen regularly to CBC – feel the radio networks are doing a good job of meeting their objectives, such as contributing to the public's general knowledge and presenting a Canadian point of view.

#### **RECOMMENDATION:**

**CBC radio should maintain its regional and local presence and continue to operate four national networks.**

#### **RECOMMENDATION:**

**CBC's radio services should maintain their distinctive, non-commercial character as provided in the CRTC's conditions of licence.**

## **2.2 ROOM FOR IMPROVEMENT**

### **THE MOVE TO FM**

Across Canada, AM radio listening has been dropping steadily for the past two decades. The reasons are varied and include sound quality, technical and programming characteristics, and the tendency of some manufacturers to install FM-only receivers in automobiles.

As noted above, the CBC's Radio Networks are transmitted mainly on the AM band, while the Stereo Networks are transmitted mainly on the FM band. While this arrangement may have had certain audience positioning advantages, it also has a significant disadvantage – namely that the AM band makes clear reception of good quality broadcast signals much more difficult, especially in dense urban areas where tall buildings and other obstacles create technical problems like fading and excessive static.

In light of these problems, the Committee feels it would now be appropriate to consider moving the Radio Networks from delivery on the AM band to the FM band wherever it is feasible to do so. The CBC would reach a larger audience and many listeners would benefit from an improved signal.

The Government has the power under section 26 of the *Broadcasting Act* to reserve frequencies for the use of the Corporation. We believe the Department of Canadian Heritage and the CBC should identify those communities that would most benefit from a migration of the Radio Network to FM. Two particularly crucial situations are those of Toronto and Quebec City. In Toronto, there is only one free FM frequency and there are marked difficulties with the reception of the CBC's AM signal.

#### **RECOMMENDATION:**

**The Government should use its power under the *Broadcasting Act* to reserve an FM frequency for the CBC in Toronto and in Quebec City. The Government should also work with the CBC to identify other communities that would benefit from the move of the Radio Network to FM.**

Providing access to CBC radio services for all Canadians should remain a high priority for the Corporation. The Committee recognizes that financial constraints make expansion of services a difficult task. However, universal access to this public service is an essential element of the Corporation's mandate.

#### **DIGITAL RADIO**

Radio is facing fundamental technological and market changes as important as the ones facing television. Many of these changes are being brought about

by the introduction of digital technology, whose impact is being felt on production methods, program content, transmission platforms and ultimately on the relationship with the audience as well.

For radio broadcasters, including the CBC, the most important development over the next few years will be the widespread introduction of digital audio broadcasting. Eventually, digital radio is expected to replace the existing AM and FM analog bands. Private, public and community radio broadcasters will all have the opportunity to make the transition to a new technology which will offer superior sound quality and interference-free transmission, as well as new value-added services, like data transmission.

While digital radio transmission is still in its early stages, the CBC has worked for several years on such a digital radio standard not just for Canada, but the world. The CBC has played a leadership role in the industry's efforts to prepare for digital radio and is a member of the Task Force on the Introduction of Digital Radio, created to coordinate the introduction of this technology in Canada. The CBC is also a partner with private broadcasters in Digital Radio Research Inc., a company created to install and operate such transmitters in Toronto and Montreal.

In a brief submitted to us, the Task Force urged the Committee to "consider the important leadership role of the Corporation in keeping the Canadian broadcasting system at the forefront of innovation and technology – a role which benefits all broadcasters, and indeed, all Canadians."

#### **RECOMMENDATION:**

**The CBC should continue its efforts to promote an orderly transition to digital radio in cooperation with its private-sector partners.**

While this long-term digital strategy unfolds, CBC radio has been exploring various other new media opportunities. On the production side, staff who once used to edit audio tape wielding a razor blade and adhesive tape can now call on computer technology for what is known as "desktop audio." Like many such technologies, which are coming into widespread use across the film and television industries as well, desktop audio lowers costs, increases creative flexibility and allows more effective collaboration among production staff.



CBC radio is also pursuing work on other “delivery platforms” – ways to reach the audience over and above its four main networks. At the moment, the most prominent of these is the Internet, and particularly the multimedia portion of the Internet known as the World Wide Web. CBC has created a substantial Web site for all its services, and radio has taken advantage of this new facility to post schedules, program synopses and other information that can be retrieved by anyone with access to the Web. A study conducted in September 1995 found that among the 600 Internet users surveyed, 15% had made electronic visits through their computers to the CBC Web site at least once. A separate, interactive study conducted through the Web site found that of 299 users responding, 75% listen to CBC Radio in an average week, while 52% listen to CBC Stereo in an average week.

As with other new media, the CBC Web site is not intended as a replacement technology, but rather as an enhancement of radio’s basic service offerings. At the same time, software has become available that allows content providers like National Public Radio in the United States to broadcast portions of their programming on the Web in real time. The introduction of such software that CBC radio must continue to explore new media opportunities if it is to maintain its position of leadership in the industry. The Committee commends CBC radio for the initiative and imagination it has shown thus far in the development of digital radio, as well as other new media.

#### THE UNDER-35 AUDIENCE

The Committee notes Canadians below the age of 35 are significantly under-represented in CBC’s radio audiences. The audience to CBC’s English radio services tends to be older than the audience for private radio as measured by total weekly time (fall 1994 data). Moreover, 58% of the audience to CBC Radio and CBC Stereo is 50 years of age or older.

The audience for CBC French radio services is slightly different, since the overall AM audience in Quebec is much older than the audience for FM. In fact, the audience to SRC-AM, SRC-FM and private French AM radio are nearly at parity. Two-thirds (65%) of the audience to private French AM radio is 50 years of age and over, not much higher than for SRC-FM (61%) and SRC-AM (56%). The audiences to private French FM are much younger, however, with only 19% of listeners being over 50.

CBC radio management has itself expressed concern over the difficulty it has experienced in attracting younger listeners. The Committee shares this concern. While the Committee would not wish to see CBC radio lose its distinctive and thoughtful nature, we encourage the development of program formats that will broaden its audience appeal.

#### **RECOMMENDATION:**

**The CBC should continue with its plans to ensure that the radio service is attractive to a wide cross-section of the listening public and that the means be found to reach out to new, particularly younger audiences.**

#### FRANCOPHONE LISTENERS OUTSIDE QUEBEC

The issues surrounding the CBC and its role in the regions and official language minority communities will also be discussed in the section below on television. However, we feel this is the place to comment on how SRC could improve radio service to communities outside Quebec.

We heard a number of concerns raised about the relevance of services offered to francophones outside Quebec. The problem is essentially that the programming broadcast by the SRC radio networks out of Montreal is of intense interest to the audience in Quebec, but is sometimes of less interest to francophone audiences in other parts of Canada. Francophones outside Quebec have made strong recommendations to the Committee for increasing the local and regional content in the programming delivered to them in their own communities.

The Committee recognizes the efforts made by SRC to serve its various communities and regions. Nevertheless, we believe that the SRC network should be more flexible in responding to the needs of these francophone communities. The goal should be to give more discretion to local stations outside Quebec to program to the needs of their own listeners. This might mean playing more locally selected music... developing inexpensive current affairs program formats... or turning the microphones over to community members for a short period each week.

The model we have for SRC radio in the regions is that of community radio, devoted to the goals of community development. While budgets and production values will be modest, the compensating factor will be the opportunity to devote more air time to local voices and local concerns.

#### **RECOMMENDATION:**

**The SRC radio services should be more flexible in fulfilling their regional obligations to francophones outside Quebec, by giving the relevant stations more discretion to program to the needs of their own listeners.**

#### COMBINING RADIO & TV NEWS RESOURCES

On several occasions, the Committee encountered the proposal that radio ought to pool news gathering resources and personnel with television. As the Auditor General noted in his report on the CBC:

The CBC organizational structure is based, for editorial reasons, on separate news gathering operations for each television and radio media, be it French or English, at the network level or at the various regional stations. This type of structure if not well coordinated could lead to duplication of certain costs and efforts in the news gathering operation between the two media lines.

We agree that CBC should encourage as much cooperation as possible between radio and television news. There's no doubt that some efficiencies and cost savings can be achieved by such cooperation.

We want, however, to express some caution. Radio and television news have fundamentally different deadlines, different staffing and resource levels, and different production methods. As a result, there is real concern in the radio service that any attempt to integrate these news operations will lead to a radio news service dominated by television, and a gradual dilution in the quality of radio news. We share these concerns.

**RECOMMENDATION:**

**CBC should encourage greater cooperation in news-gathering between radio and TV, but should not attempt to integrate the news operations of the two media.**

## BOARD, MANAGEMENT ATTENTION TO RADIO

In some ways, radio's very success, along with the increasingly complex demands of television, have prevented radio from receiving its fair share of attention from CBC's Board and senior management – a view we heard in our consultations both inside and outside the CBC.

Suggestions for addressing this situation include the creation of a committee of the CBC Board of Directors to concentrate exclusively on radio. Another is that the CBC Board of Directors arrange the agendas of the committees on English- and French-language programming so that alternate meetings are devoted to radio and television issues respectively. We leave the decision as to the best way to address this concern to the CBC Board.

**RECOMMENDATION:**

**The CBC should consider creating a committee of the Board to focus exclusively on radio issues, or else devote alternate meetings of the committees on English- and French-language programming to radio.**

## A MORATORIUM ON RADIO CUTS

The Committee is deeply concerned about the cumulative program impact of the \$29 million in cuts (of the \$227 million in total reductions) to the CBC's radio budget. We are equally concerned that the excellent program services of the radio networks will be severely damaged by further budget cuts in coming fiscal years. The quality of the schedule may become so compromised by program cancellations, more recorded music and repeats, and a reduction in drama, that these superb services will be threatened and loyal listeners alienated. This must not be allowed to happen.

We have heard the argument that radio and television must share the burden of cost-cutting. As a point of reference, in 1994-95, CBC radio costs (including both programming and distribution), totalled \$324 million, compared to a television budget of more than three times that size. The question is whether radio ought to shoulder a proportionate share of cuts, particularly through efficiency gains.

The Committee has reviewed the relative efficiency of the radio networks compared to the television side. There are important differences between the media to remember in assessing efficiencies. It is the Committee's view that potential efficiency gains in radio are quite modest because of the nature of the medium. Radio has far fewer production and technical staff, less complex production requirements, significantly less administrative support, and does not have the flexibility to contract out production.

We heard persuasive arguments that radio gets proportionately less of CBC's common services (e.g. research, communications, finance and human resources) than its larger and more complex sister service. Radio has much less room to manoeuvre in absorbing cuts than does TV.

CBC radio is a distinctive and successful role model for public broadcasting. We believe that any further cuts would fundamentally compromise the radio services, and we would urge the CBC management to protect radio from any further cuts for the next three years.\* We also feel that any efficiency savings in radio should be reinvested in programming.

#### **RECOMMENDATION:**

**The Radio and Stereo networks should be protected from further cuts for a period of three years. Any efficiency gains realized in this three-year period should be kept by radio to be reinvested in programming and to reward radio for demonstrated excellence in public service.**

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\* It's important to note, at this point, that the Committee would argue against any further cuts to the Corporation as a whole. In the final section of this chapter, called Funding the New CBC, we make the argument that any further reductions to the CBC's overall budget should come out of a new 2% per year efficiency improvement program. This would involve the administrative and support areas of the CBC.





## 3. TELEVISION

### 3.1 THE TELEVISION CULTURE

Television has long been, and still is, our most significant leisure activity. The average Canadian watches over three hours of television a day. Let's put that in perspective. The 23 hours a week we spend on average in front of the television is more than we spend on reading, going to movies, theatre, ballet and the symphony, attending church, playing sports and participating in PTA meetings – combined.

Moreover, survey research indicates that Canadians get the great bulk of their information from television. In fact, a poll undertaken by Environics Research in the spring of 1995 revealed that a majority of Canadians feel television is more entertaining, exciting, upsetting, informative and educational than other communications media such as newspapers, magazines and radio.

In our view, there are both costs and benefits that flow from television's prominence in the cultural landscape.

On one hand, television is remarkably influential in shaping social and cultural values. It is also arguably the most powerful medium for shared experiences among groups large and small. Although network television in North America has lost considerable market share and some of its prestige over the last 10 or 15 years, it can still aggregate huge viewing audiences around certain programs and series, something that pay and specialty services are not designed to do.

From a purely cultural perspective, however, we believe television is far from having lived up to its promise. One of the costs we must reckon with is the amount of time children spend with television and the dearth of stimulating and enriching programs television has to offer the young. By the time our kids reach the age of 12, they will have seen approximately 12,000 hours of television – twice as much time as they will have spent in school. And eight times the hours they will have devoted to doing homework. Schools may be educating our children. But for better or worse, it's television that's *teaching* them.

Other observers have noted that television is largely a means of entertainment and rarely a factor in personal growth and lifelong learning. In Neil Postman's famous phrase, it's the medium that has us "amusing ourselves to death." Without holding to quite such an apocalyptic view, we see evidence right across the television dial that even some American news and information programs are designed more as a catchy diversion than as opportunities to understand and learn from the events around us. In one sense, this is nothing more than the logic of commercial television at work. Information programs, just like sitcoms and movies, have to deliver audiences to advertisers so that broadcasters can keep their businesses running.

### 3.2 A PROFILE OF CBC & SRC TELEVISION

That's where the CBC comes in. The CBC was created to provide a wide range of distinctive Canadian programming that informs, enlightens and educates Canadian audiences. And over the years, Canadians have come to depend on their national public television service to give them a quality alternative to commercial television.

Indeed, in its early years CBC television gave its audience more than just an alternative, because it was the only Canadian television service most of us could get. As a result, CBC television had to be a generalist broadcaster. That meant providing the whole gamut of programming, from popular fare for mass audiences to very specialized fare for minority audiences. The CBC schedule thus included news and current affairs, serious drama, the arts (including ballet and opera), science and natural history, as well as sports, light entertainment and imported American series. CBC thus became all things to all people – a role that it would continue to play (albeit less comfortably) in the 1980s and 90s, despite increased competition from Canadian

conventional broadcasters and specialty services who began to make a more significant program contribution... and despite severe financial pressures.

And over the course of more than four decades, CBC television has often performed its role brilliantly, and has made a unique and invaluable contribution to the social, cultural and political life of this country. The French and English networks have both scaled artistic heights in their programming that set them apart from any other Canadian broadcaster, and perhaps from any American broadcaster for that matter.

*CBC television has been Canada's electronic journal of record, the primary outlet for domestic drama, the showcase par excellence for writing and performing talent. The English network continues to be the place on the television dial where viewers can find long-form documentaries, investigative reports and original Canadian mini-series.*

*It is no exaggeration to say, as well, that SRC television has been the most important musical and theatrical stage in French speaking Canada; and that apart from Quebec's educational system, SRC has been the single most influential forum for news and information, for continuing education, and for cultural development in the francophone community across the country.*

CBC television can also point to contemporary achievements in every program category. In drama, *Net Worth*, *North of 60*, *Road to Avonlea*, *Love and Hate*, *Conspiracy of Silence* and *Liberty Street*. In documentaries, *Witness*. In news and current affairs, *The National*, *The Journal*, *the fifth estate*, *Marketplace*, *Venture*, *Man Alive*, *Midday* and a compelling array of programs on *Newsworld*. In comedy and entertainment, *This Hour Has 22 Minutes*, *Codco*, *The Royal Canadian Air Farce*, *Rita MacNeil and Friends* and the Anne Murray specials. In arts and science, *The Nature of Things* and *Adrienne Clarkson Presents*. In children's programming, *Mr. Dressup*, *The Friendly Giant* and *The Elephant Show*, and in sports, the CBC's superb coverage of the Olympics and NHL hockey.

The French network has its own proud lineup of program successes that have aired over the last few years. In drama, some of leading programs and series have included *Les filles de Caleb*, *Blanche*, *Le temps d'une paix*, *Scoop* and *La petite vie*. In news and current affairs, *Le Téléjournal*, *Le Point*, *Enjeux* and *La Facture*. In variety, *L'Enfer c'est nous autres*, *La course destination monde*, and *Génies en herbe*. In arts and science, *Les Beaux Dimanches*, *Sous la couverture*,

*Ciné-Club*, *La Semaine Verte* and *Découverte*. And finally, in children's programming, *La Ribambelle*, *Les Chatouilles du Matin* and *Manigances*.

Although we can make some general statements about CBC television as a whole, we must be careful to recognize the unique attributes of the French and English television networks. They are run separately and maintain distinct programming and operating structures.

The Corporation's French-language television network (SRC television) is made up of eight owned-and-operated stations, and five affiliated stations. In addition, there are more than 200 rebroadcasters that enable SRC to reach 99% of French-speaking viewers throughout Canada. In 1995, it operated with a total programming budget of about \$318 million.

The English television network is delivered to 99% of English-speaking Canadians through a combination of 13 owned-and-operated stations, and 20 privately owned affiliates. The CBC's owned stations reach approximately 84% of the population with the affiliates accounting for the remainder. The English television service (network and CBC-owned stations) operated with a total 1995 programming budget of about \$580 million.

The English network has seen its audience "share" drop sharply over the past decade. But the story isn't quite that simple. For one thing, most other conventional broadcasters in North America have also lost a significant share of their audience with the spread of cable and the emergence of a 60-channel television universe. In the latter half of the 1980s, both CBC and CTV lost between one-quarter and one-fifth of their overall viewing share. Since 1989-90, however, CTV has levelled off at around 22% of the full-day audience, while CBC has slipped from 16.1% to 12.9% on a full-day basis.

In contrast, SRC has held most of its share through the first half of the 1990s, slipping slightly from 27.4% in 1989-90 to 26.5% in 1994-95. Competitors TVA and TQS also experienced slight full-day declines in their share over this same period.

It should be noted that the CBC's English network schedules far more Canadian programming in *prime time* than its commercial competitors. It also draws a much larger share of the prime-time viewing audience to Canadian programming than CTV and Global put together. And finally, it



is important to remember that CBC, unlike its commercial competitors, has always been expected to provide program services to both general audiences and more specialized viewers.

Share isn't everything, however – especially not for a public broadcaster. The CBC also measures its success with the audience in terms of “reach” – the number of viewers who tune in at least once a week. For our purposes, we have looked at viewers who tuned in for at least 30 minutes a week to particular networks (rather than the conventional industry standard of one minute, which we consider too low to be meaningful). Looked at from this perspective, CBC television is used by far more Canadians, both French- and English-speaking, than the share figures alone would suggest.

The latest available data for the 30-minute threshold, from the 1993-94 season, show that 63% of English-speaking Canadians watched the CBC in an average week. This compares to a weekly 30-minute reach of 72% for CTV. SRC was used by 75% of French-speaking Canadians in an average week, with TVA neck-and-neck at 74%.

While CBC produces most of its own news, current affairs and sports programming, it has had extensive dealings with independent producers and filmmakers in the creation of drama and entertainment programs in the past 15 years. Currently, about half of all programming other than news, current affairs and sports is produced by independents, which represents the largest single investment by a broadcaster in the independent production industry in Canada. Most of this activity is backed by Telefilm's Broadcast Fund, which stipulates that CBC sponsored productions may have access to a maximum of 50% of the money available each year in the Fund.

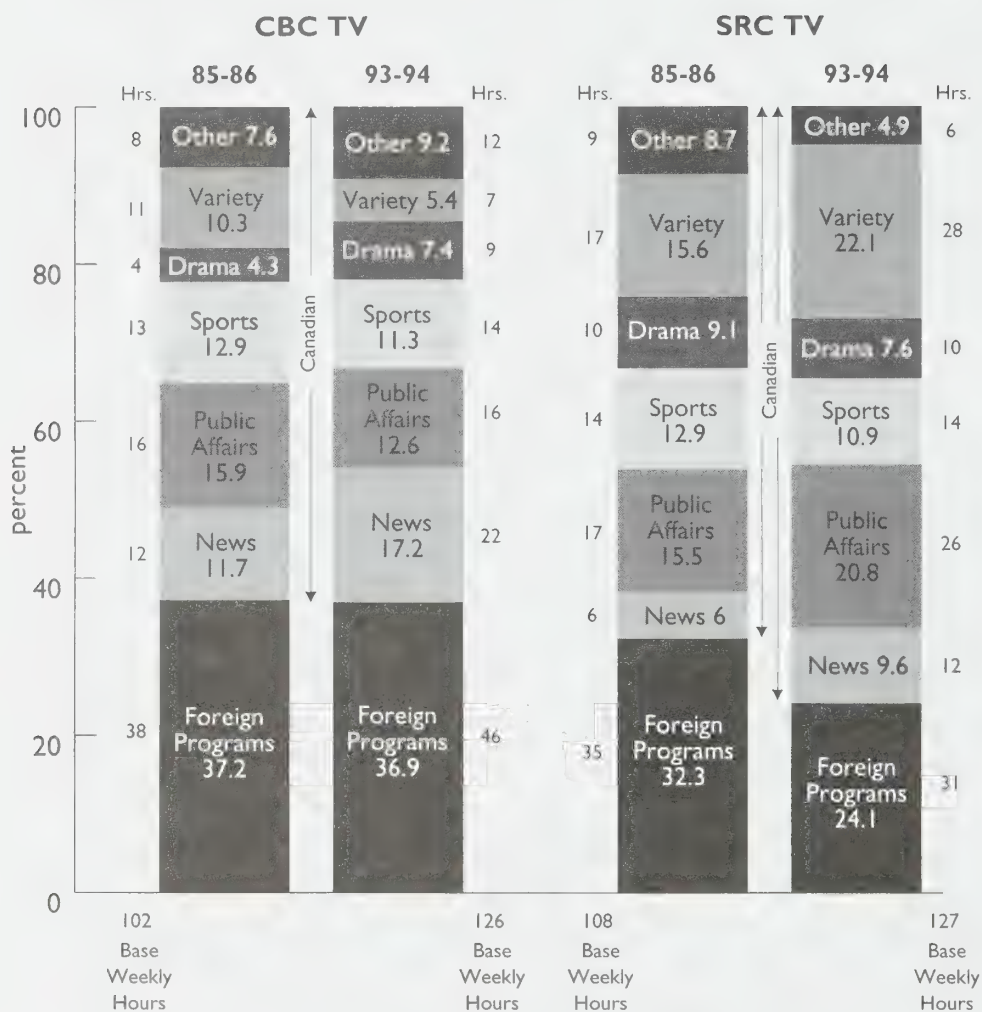
### 3.3 PROGRAM CONTENT & VIEWING TRENDS

#### FULL DAY

The CBC's English and French television networks both meet the CRTC requirement that they be “predominantly Canadian” (Graph 1). However, while CBC and SRC carried about the same levels of foreign programming in 1985-86, the year-long average for SRC's foreign content had dropped to

Graph I  
 PERCENTAGE AND SCHEDULE HOURS BROADCAST,  
 CBC OWNED AND OPERATED ENGLISH AND FRENCH  
 TV STATIONS, 1985-86 AND 1993-94 (SEPT.-AUG.)

6 am - 2 am (full day)



Source: CBC Research (A.C. Nielsen)

24% by 1993-94, while the English service remained at 37% – not much better than the limit of 40% foreign content the CRTC requires of private broadcasters.

In viewing terms, however, both the English and French services are overwhelmingly Canadian. Canadian programs accounted for 70% of viewing devoted to CBC and 84% to SRC in 1993-94 (Graph 2). For English television this represented an improvement from 66% in 1985-86; for French television an improvement from 76%.

These increases, however, mask a number of trends that are important in the context of the CBC's mandate. In the case of English television:

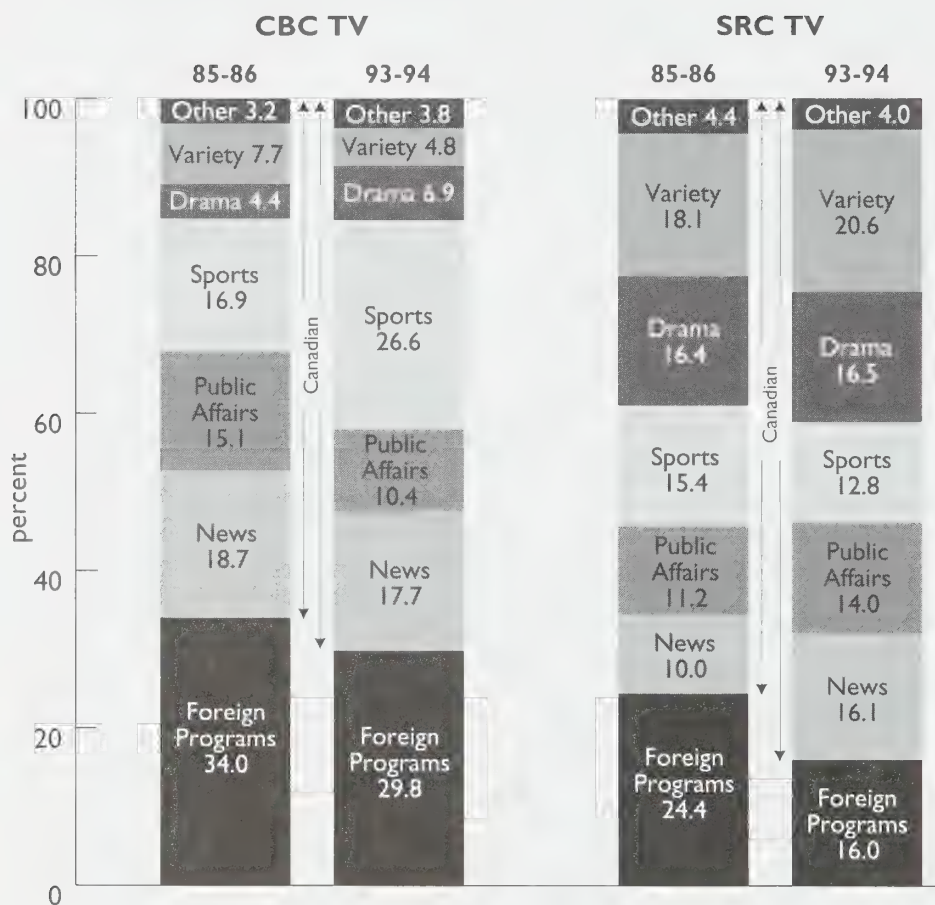
- The increase in full-day viewing share for Canadian programs was accomplished almost entirely by sports programming. Sports accounted for 17% of the audience in 1985-86 and grew to 27% in 1993-94.
- Apart from sports and American acquisitions, other Canadian programs accounted for 44% of the CBC's audience in 1993-94, down from 49% in 1985-86.
- News and public affairs programs attracted 28% of the CBC's audience, down from 34%.
- Audiences for all of its other programming – including drama, variety, children's and the arts – represented only 15% of CBC viewing.

For SRC the pattern is substantially different:

- Increased viewing of Canadian programs resulted mainly from news and public affairs, which accounted for 30% of the audience in 1993-94 – up from 21%.
- Audiences for sports account for less than half the share of viewing they represent for English television – 13% compared to 27% for English television. The difference exists despite the fact that each service offered about the same number of hours of sports.

Graph 2  
 PERCENTAGE AND HOURS VIEWED, CBC OWNED AND  
 OPERATED ENGLISH AND FRENCH TV STATIONS,  
 1985-86 AND 1993-94 (SEPT.-AUG.)

6 am - 2 am (full day)



Source: CBC Research (A.C. Nielsen)

- Drama, variety and other programming accounted for more of SRC's schedule and more of its audience in 1993-94 than for CBC – 35% compared to 22% for the schedule, and 41% compared to 16% for viewing.

## PRIME TIME

Because television viewing is heavily concentrated in the evening hours, it is particularly important to look at what is being offered and watched in the prime-time hours between 7 and 11 pm (Graphs 3 and 4). Despite market pressures that might otherwise have pushed the CBC to schedule more foreign programs in peak viewing times, both the English and French services have, in fact, been highly successful in reducing the amount of foreign programming they offer in prime time. There was relatively little difference between the two in 1993-94, with the English service devoting only 14% of its schedule to foreign programs, and the French service about 15%.

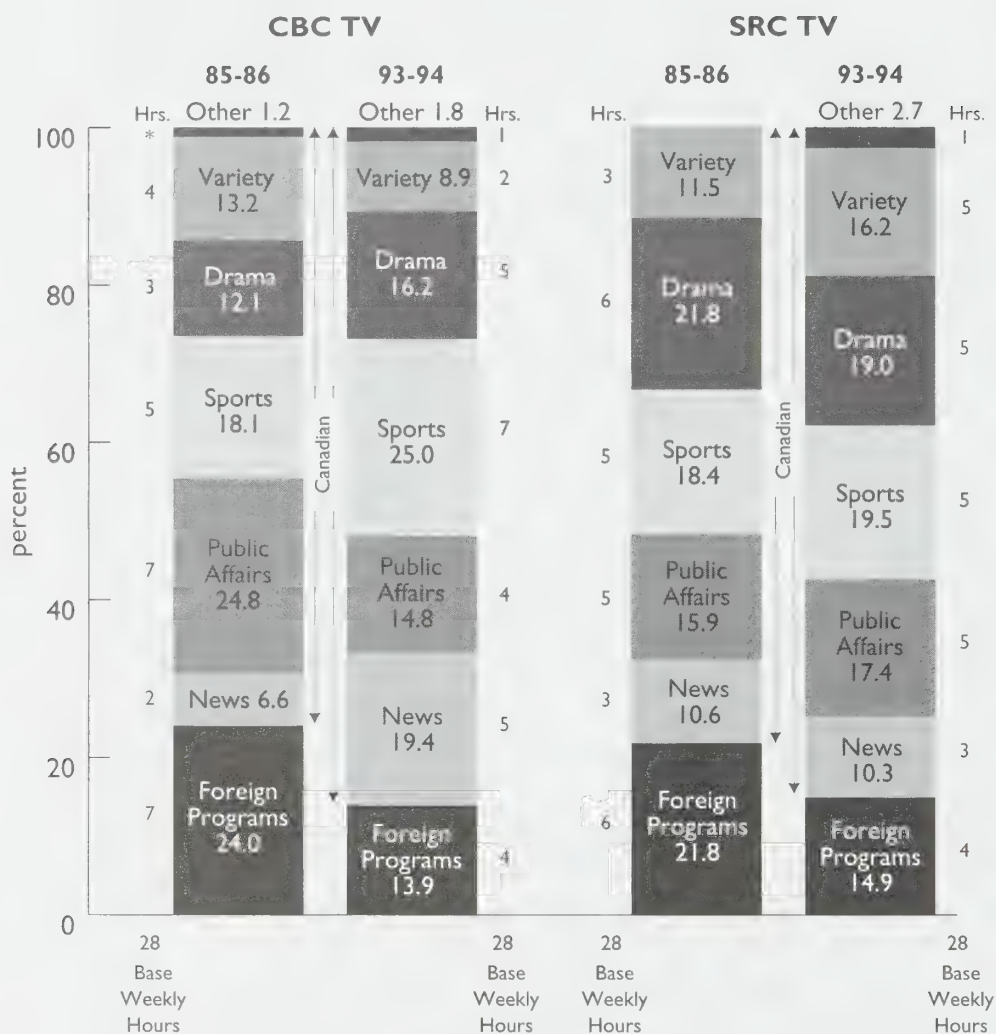
Each service also gave substantial importance to news and public affairs in its schedule, more than is typical of commercial broadcasting services, which tend to schedule their late evening newscast at 11 pm. In the case of the Corporation's English and French services, however, there was no change in the quantity of news and public affairs programming offered over the period from 1985-86 to 1993-94, with the English service continuing to schedule roughly nine hours of news and public affairs per week and the French service about eight hours.

A major change did occur in this period in the scheduling of sports in English and variety programming in French. Sports became the cornerstone of the English schedule, expanding to fill up one of every four hours over the course of a week on CBC television, while variety increased on the French-language service from 11.5% to 16.2%.

The most striking fact about CBC's English service emerges in the viewing patterns for the network during the evening hours. Prime-time sports programming, which had accounted for just under 20% of viewing in 1985-86, increased to just under 37%. In other words, the CBC tried to protect its audience share as it replaced American commercial programming by giving Canadian sports pride of place in the schedule. Whereas foreign programs had attracted the most viewers to CBC English television in 1985-86, sports



Graph 3  
 PERCENTAGE AND SCHEDULE HOURS BROADCAST,  
 CBC OWNED AND OPERATED ENGLISH AND FRENCH TV  
 STATIONS, 1985-86 AND 1993-94 (SEPT.-AUG.)  
 7 pm - 11 pm (prime time)



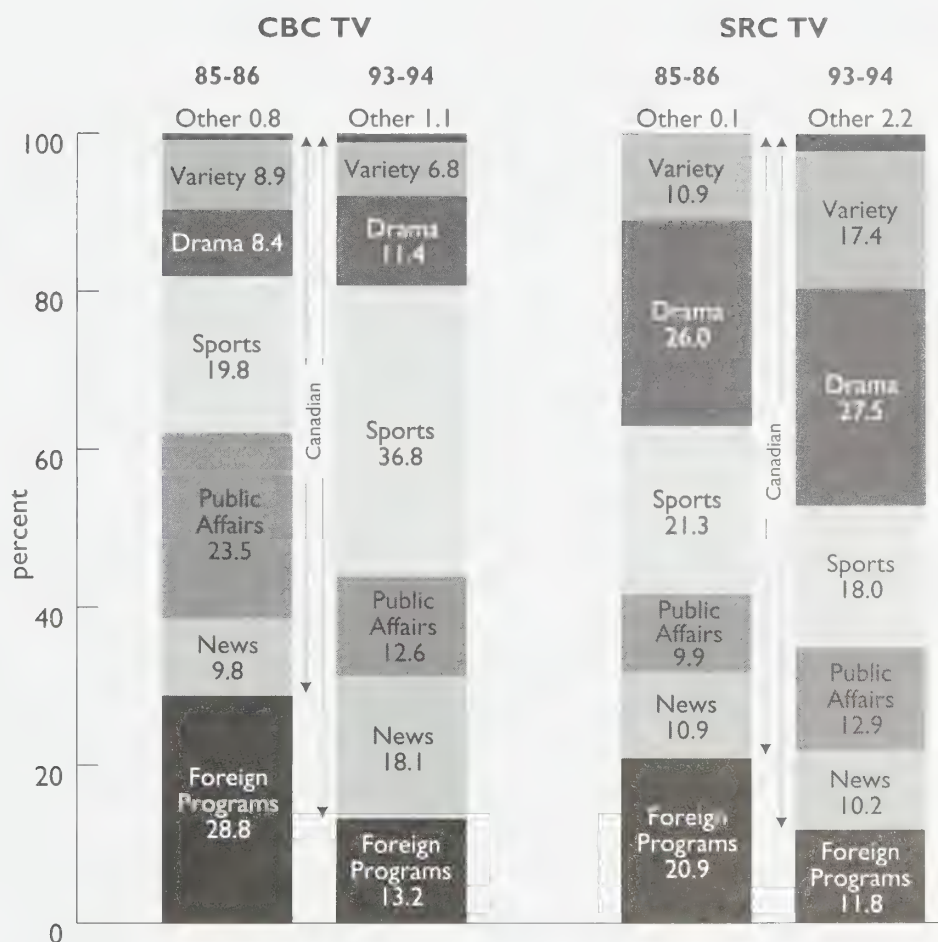
\* Less than 0.5 hour.

Source: CBC Research (A.C. Nielsen)

Graph 4

PERCENTAGE OF HOURS VIEWED, CBC OWNED AND  
OPERATED ENGLISH AND FRENCH TV STATIONS,  
1985-86 AND 1993-94 (SEPT.-AUG.)

7 pm - 11 pm (prime time)



Source: CBC Research (A.C. Nielsen)

was the undisputed winner by 1993-94. News and public affairs remained relatively constant and Canadian drama increased its share of viewing from 8.4% to 11.4%.

While sports also occupies an important place in the viewing of the French-language service, second only to that of Canadian drama, it is at less than half the level for the English service and slightly lower than in 1985-86. The pattern for SRC appears to be that audiences who used to watch foreign programming have been replaced by audiences to Canadian variety programs. Canadian drama, however, remains the most important program category in attracting audiences.

Two limitations should be kept in mind in reading these figures. The first is that they represent data for the owned and operated television stations of the CBC, and exclude its affiliates. Canadian programming does not occupy as large a place in the schedules of most affiliated stations, particularly in English. Second, these broad program categories say little about the nature of the actual programming offered. Drama, for example, can include an adaptation of a play by Michel Tremblay, a sitcom, a theatrical feature film or a drama series for children. We examine programming issues in greater detail below.

### 3.4 DRIFTING FROM THE MANDATE

At several points in this report, we refer to the changes that have shaken up the communications industries, including broadcasting, over the last decade or so. These changes are usually traced to two particular forces: increased competition for audience among a larger and larger number of networks and specialty services; and the remarkable evolution of cable, satellite distribution and programming technologies like home video.

While these forces have caused financial woes and major realignments in the private broadcasting industry, they have not spared public broadcasters like the CBC. In fact, CBC television, both English and French, has had to face not only a more competitive marketplace, but a steady decline (in constant dollars) in government appropriations. CBC's response to the changing environment over the past 15 years has also been heavily influenced by the Corporation's need to offset these budget cuts by increasing advertising revenues.

Naturally, this could not be achieved without significant alterations to program schedules. These alterations have sometimes been subtle and sometimes fairly visible. But they have slowly and inexorably changed CBC television's role as a public broadcaster.

Over the years, what seems to have happened at the two networks is that management and program-makers have become more consciously competitive and commercial, in order to win audiences back from their private-sector competitors and to boost their advertising revenues. In the process, the networks have become less distinctive and less preoccupied with their public broadcasting mandate.

This gradual change of orientation has been clearly reflected in the nature of the programming reaching Canadian television screens. On the English side, viewers have been offered a significant increase in the volume of sports, more emphasis on popular drama and variety, and a continued emphasis on using the late afternoon period for syndicated American entertainment – instead of programming more suited to young, after-school viewers.

One of the most remarkable things about this drift away from its public broadcasting mandate is that it has all taken place without any explicit statement by CBC of a change in its strategic direction or programming policy. The gap between professed program goals and the actual program schedule is particularly pronounced at the English network. It has subtly reduced its emphasis on children's programming and more serious drama; produced or commissioned less high profile arts programming (both performance and documentary), as well as less original science programming; and provided less money for local and regional programming. Although the Corporation has frequently (and quite accurately) suggested that its activities have been hampered by declining budgets, it has avoided any acknowledgement of a strong emphasis on ratings and revenues, or of the effects this strategy has had on program quality or the program mix.

Not surprisingly, this approach has had mixed results.

For a while, the commercial strategy worked in CBC's favour. It generated significant increases in its advertising revenue until the early 1990s, before the recession and increased competition caused a levelling off. This allowed the CBC to offset much of the reduction in constant dollars in its Parliamentary appropriation that had begun in 1984-85. The strategy also

slowed CBC's audience decline and allowed it to compete fairly vigorously with Canada's private broadcasters.

But we believe that the costs of this strategy have outweighed whatever short-term financial benefits it may have conferred. For it has meant that CBC television has become less distinctive and less preoccupied with being the quality alternative to the commercial broadcasters. Indeed, it has led some critics to argue that the CBC is not all that different, as a result, from its commercial competitors.

CBC television has also become less concerned with the traditional public broadcaster's role of providing a blend of general audience programming and more particular fare for a range of specialized audiences. It has lost much of its impact at the local and regional level. And, as a result of this drift away from its core mandate, CBC has lost some of the loyalty and goodwill that Canadians have had in the past for the television networks – and still have for CBC radio.

As we are often at pains to remind the reader, these general observations apply more to CBC's English television network than its French network. Because the financial difficulties that have beset the CBC have repercussions for the whole organization, the French television network has inevitably had to deal with some of the same pressures as the English network. It has also become increasingly competitive and commercial in its program orientation, with entertainment programming (comedy, variety and light drama) increasingly shaping the schedule. There are many observers who argue that SRC and TVA look increasingly alike, with SRC doing more in light entertainment and sports... and TVA expanding in news and current affairs.

For commercial reasons, the need to be more "entertaining" has obviously become a determining factor in SRC's programming decisions. It can be seen in the style of many program hosts, in the approach to content, and in the quality of the language used.

In many respects, however, the differences between CBC's English and French networks are more important than the similarities. For one thing, the Quebec market is protected by language from many of the competitive forces that have shaped television in English Canada, particularly CBC television. As a result, SRC has been able to maintain a better public broadcasting equi-



librium, as evidenced by its consistent commitment to a range of drama programming, to cultural programming and to children's programming.

SRC continues to enjoy a healthy share of the audience, and is still serving that audience with a greater diversity of programming than exists on the English side. To understand better just where the networks stand, we're going to devote the next few pages to an analysis of their schedules, focusing on some specific program categories: news and current affairs, drama, sports, children's, and the arts. We will also look at the CBC's performance in local and regional programming.

### 3.5 TELEVISION PROGRAMMING

#### NEWS, CURRENT AFFAIRS AND DOCUMENTARIES

In discussing CBC's programming in its June 1995 report, the Parliamentary Standing Committee (chaired by John Godfrey) concluded that the Corporation "plays a unique and extremely important role in the fields of news and public affairs programming."

We share this view, and we believe that news and current affairs programming on both CBC television networks is at the heart of its public service mandate.

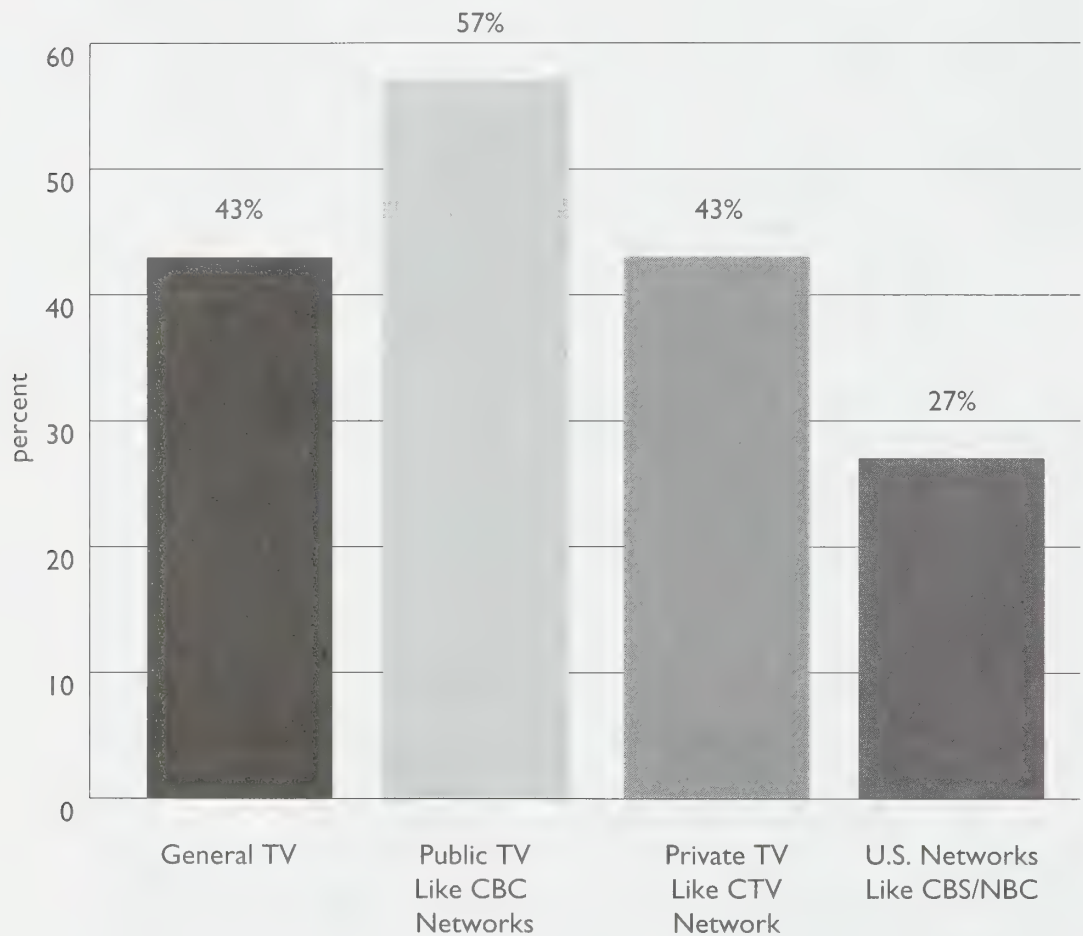
We also believe that CBC's news and current affairs has a range of programming, a level of professionalism and an integrity that far surpasses that of any other North American television network, and these qualities have earned CBC television a high measure of public trust.

This view was strongly supported by a recent Angus Reid survey (August 1995), which concluded that CBC's journalistic credibility was substantially higher than that of private Canadian networks or of U.S. networks. On the scale used the Angus Reid firm in measuring credibility, the CBC was at 57%, the private Canadian networks were at 43%, and the U.S. networks at 27% (Graph 5).

We also want to acknowledge the important work performed by Newsworld and its French language counterpart, RDI. Both of these all news specialty services have played a significant role in expanding regional news and cur-

Graph 5

LEVEL OF CREDIBILITY CANADIANS ATTACH  
TO INFORMATION REPORTED BY VARIOUS  
NEWS MEDIA SOURCES



**Note:** Figures represent percentage of respondents selecting "6" or "7" on a 7 point scale where 1 = Believe Very Little and 7 = Believe Almost All of what is reported by news media source.

**Source:** CBC Research (Angus Reid Report, July-August 1995)

rent affairs coverage; and because of their format, both have been able to devote substantial blocks of time to covering important national and international stories.

We want to make four additional observations:

- While we share the Standing Committee's overall conclusions about CBC television's success in network news and current affairs (and the need for this area of programming to remain a priority), we do not share its ambivalence about whether the Corporation should withdraw from television news and current affairs in local communities across the country.
- CBC news and current affairs programs should operate under a simple rule of thumb – they should aspire to be the “best” in their program category, and not necessarily “first” in audience terms. In other words, their preoccupation has to be on quality and service, not on ratings.
- We believe that the integrity and credibility of CBC's journalistic programming is based, in large measure, on its high editorial standards... and on the long established independence of the CBC. It is essential, therefore, that the CBC's Board and senior management be vigilant in making sure CBC journalism lives up to those standards ... and in making sure that the CBC's editorial independence is protected.
- And finally, we believe that the CBC must continue its tradition of thoughtful, long form documentaries as a way of exploring complex Canadian issues in far greater depth. Canada has been a world leader in the documentary form, and CBC should provide an ongoing outlet for independent filmmakers and the NFB in this important area.

## DRAMA PROGRAMMING

Story telling has been an essential part of television from the beginning. It also dominates viewing, with drama series and made for TV movies accounting for about 41% of all viewing in English Canada and about 33% in French.

It is important to note from the outset that the audience environment within which CBC's English and French networks function differs great-

ly. In French speaking Canada, dramas produced in Quebec have always been extremely popular with viewers. Quebec drama, for example, attracts almost 40% of all prime time drama viewing on French television. But on English television, Canadian drama attracts only about 10% of the total time devoted to watching prime time drama series, films, and made for television movies.

It is not easy, however, to distinguish cause and effect. Is viewing of Canadian drama among anglophones low because no one is interested? Or is it low because only about 14% of all the drama available on English television is Canadian? To paraphrase the now famous line from *Field of Dreams* – if we make it, will they watch?

The answer is not conclusive, but the audience response to recent Canadian dramas may be indicative – *La petite vie* drew an astonishing 3.9 million viewers for one episode in the 1994-95 season; and *Scoop*, *Les filles de Caleb*, and *Le temps d'une paix* all generated huge audiences in Quebec. Even on the English side, series like *ENG*, *Street Legal*, *Due South*, *North of 60*, and *Road to Avonlea...* and drama specials like *Net Worth*, *Life with Billy*, and *Million Dollar Babies* have consistently attracted audiences of more than one million viewers.

The problem therefore, we would argue, has to do with the limited amount of Canadian drama available, and the difference in the amount of drama produced in English and French is quite revealing. In French, roughly 370 hours a year of original Canadian drama are shown on television. That compares favourably (on a per capita basis) with France, which broadcasts just over 1,000 hours of original drama each year.

The situation on English television is starkly different. The main networks (including CBC) provide an estimated 145 hours of original drama each year. This compares very badly (again on a per capita basis) to the almost 1,300 hours of domestic drama generated each year in Britain.

The way that drama production is financed in Canada also differs greatly from Britain and the United States. Until recently, British drama production was done primarily "in house" – with the BBC and ITV paying the full cost of the production. More recently, a fourth British network, Channel 4, was created specifically to nurture the independent production sector. In the past few years, the BBC has also set a goal of acquiring 25% of its enter-

tainment programs (including drama) from independent producers. But with the exception of feature films, both the BBC and Channel 4 continue to pay for most of the production cost of independently produced drama.

In the United States, the four major networks were not allowed until recently to produce drama themselves; but their licence fees for Hollywood produced drama series usually cover up to 90% of the production cost.

By comparison, English Canadian drama production gets relatively little of its financing from Canadian broadcasters. Even CBC television, which used to be heavily involved in drama production, is now producing just one of four series in-house, *Side Effects*. And CBC pays for less than one third of the production costs (through licence fees) for most of its independently produced series.

There is more fully-financed, in-house production done in Quebec by SRC and Télé-Métropole (about half the hours of original drama production), but over the past few years, budget constraints have become a serious problem. Statistics Canada data indicate that the total expenditure on drama production by private broadcasters in Quebec (both in house and independently produced) fell sharply after 1991, dropping from \$28 million to \$13 million in 1994. During the current season, SRC will account for the great majority of original Canadian drama in Quebec – averaging more than 13 hours a week, compared to about 7 hours for TVA.

All of this background information is provided to support several inescapable conclusions: the Canadian market continues to have serious problems financing Canadian drama (despite the active support of Telefilm); the ability of private broadcasters to provide drama investment is declining. It has gone down sharply in Quebec and the total private broadcasting investment in drama in the rest of the country went from \$43 million in 1991 to \$39 million in 1994; and, even if these investment levels were increasing, they still would not generate a great deal of indigenous production.

One other trend exacerbates the situation even more. For compelling economic reasons, an increasing amount of Canadian independent drama production is now being produced primarily for the American market and for American audiences.



If we want, therefore, to create an indigenous Canadian drama industry that reflects the rhythms of daily life in this country, it is increasingly clear that most of the responsibility will have to fall on the CBC and Telefilm.

And the CBC role cannot be limited to providing most of the Canadian drama offered in English and French. It must also be the champion of genuinely indigenous Canadian production – production that uses our best creative talent and tells our most engaging stories.

Unfortunately, as far as CBC English television is concerned at least, the news is not encouraging. The CBC's limited drama resources... and its need to generate additional commercial revenues have led a number of inevitable consequences: a limited quantity of drama programming; an increasing reliance by independents on co-productions, usually with commercial broadcasters in the United States; more and more drama series that reflect commercial program formulas; less and less in-house production; and the virtual disappearance of more thoughtful or provocative drama specials.

The CBC's expenditures on drama programming in 1993-94 were \$110 million in the English service and \$58 million in French. These amounts were augmented by \$30-35 million in Telefilm assistance to private producers whose programs were licensed by the Corporation. These resources, even when combined, fall far short of what would be required to sustain a reasonable volume of high quality indigenous drama on the Corporation's two services. We note that the CRTC has set a drama goal of ten hours a week, averaged over the year, for both CBC networks. We applaud the success of SRC in meeting this goal, but deeply regret the failure of CBC's English network to do so. We believe that a reasonable level of Canadian drama is an essential part of the Corporation's mandate.

We do want to raise one significant caveat regarding SRC's limited amount of more demanding and high quality drama, however. We were disturbed by how frequently we heard that the quality of SRC's drama had gone down in recent years, and that the network had lowered its standards to reach a broader audience.

The problem is quite different on the English side. It may be tempting to rationalize the absence of a commitment to indigenous drama in English speaking Canada, and the rapid expansion of production tailored specifically for the American market, by tacitly accepting the premise that English

Canadians are not significantly different from Americans anyway. We disagree completely. We would point out that anyone familiar with Canadian literature knows that it is distinctive, varied and of exceptional quality. It also reflects the work of important writers from coast to coast, whose stories are riveting and deeply rooted in the Canadian landscape.

This leads us to a completely different and far more upbeat conclusion. We have the writing, performing and production talent in this country. There is strong evidence of audience appetite for Canadian themes and stories. This is why we believe that if the resources were available and the CBC made a renewed commitment to high quality drama programming, we would be able to create a strong and indigenous voice in television drama.

## SPORTS PROGRAMMING

In its report on the CBC last year, the House of Commons Standing Committee on Canadian Heritage identified sports as the most controversial category of programming considered during its deliberations. We have already made it clear that we regard the quantity of sports programming in the CBC schedule ... and the prominence given to sports in prime time... increasingly incompatible with the Corporation's mandate.

In general, we share the conclusions reached by the Standing Committee. We believe the CBC's coverage of sports should strike more of a balance between professional and amateur sports, and that sports programming should occupy a much less prominent place in the prime time schedule.

We would note two jarring illustrations of the CBC's excessive enthusiasm for sports programming:

- For the past decade, CBC and SRC have both chosen to provide blanket coverage of each round of the Stanley Cup playoffs. It involves one or more playoff games for up to six nights a week, for a period of at least seven or eight weeks throughout April and May. Despite Canada's ongoing love affair with hockey, we believe that the CBC has simply lost its sense of proportion. It disenfranchises millions of viewers (who are not hockey fans) for several months, completely pre-empts other parts of the program schedule that a public broadcaster might be

expected to telecast, and consistently delays the major nightly news and current affairs shows on both of its networks.

We find it hard to believe that the CBC's scheduling decisions each April and May are driven primarily by considerations of public service; we see it more as a public broadcaster far too preoccupied with maintaining its audience share and protecting its advertising revenue base.

It is worth noting that even the American networks, which seldom take a back seat to anyone in their commercial assertiveness, are unwilling to impose this much sports programming on their viewers. NBC, for example, "lays off" most of the NBA playoff games (for which they have the rights) to a sports specialty network; they limit themselves to weekend playoff games... and then provide live prime time coverage of the championship round (every second night over a two week period).

- While our report was being prepared, we noted a second illustration of sport's prominence in the CBC's English schedule. Over a period of ten consecutive nights, starting September 30 (at the beginning of a new television season), the English network showed professional sports in prime time on seven of those evenings. A number of these evenings were devoted to an American League baseball playoff series, which the CBC carried as a simulcast with an American network. The U.S. network coverage would have been available to 85% of the English language audience.

As we indicated earlier, the CBC English network now devotes 25% of its prime time schedule (based on its 1993-94 season) to sports, and attracts about 37% of its prime time audience from sports. And CBC television now schedules almost as much sports in prime time as its drama, variety, arts and science programming combined.

We have listened carefully to the CBC's arguments supporting this level of sports programming, and while we are sympathetic to their concerns about audience, commercial revenue, and the fact that sports covers its costs, we believe that the CBC (and the Canadian viewing audience) pay far too high a price for these benefits.

As we mentioned earlier, our children have grown up in a remarkable technological era, and have been weaned on television from their earliest days. They spend far more time watching TV than they do in school, and as we stressed, schools may be educating our children, but for better or worse, it is primarily television that is teaching them.

We are particularly concerned that the vast majority of the 12,000 hours of television our kids will watch by the age of 12 will be American programming – full of American heroes, American values and American commercials. And we are concerned about what happens to a child's sense of Canadian identity when most of their cultural cues come from south of the border.

Canadian private broadcasters and specialty services (like YTV) often do solid work in providing children's entertainment programming, but they do not provide enough of an alternative. Commercial broadcasters have to live by the rules of the marketplace... and they have to pay a great deal of attention to entertainment, ratings and advertisers. Inevitably, it means that they produce programming to achieve those imperatives... and not necessarily the public service goals they might prefer. This dichotomy between private sector rules and public service obligations plays out most dramatically when it comes to children's programming.

As Reed Hundt, chairman of the U.S. Federal Communications Commission said last October:

Broadcasters once accepted the idea that nurturing children was part of the public interest. In 1951, when television was still new, and broadcasters wanted to convince adults that buying a television set would enrich their children's lives, 27 hours of children's program aired each week, much of it high quality. But over the years, commercial networks have virtually abandoned their responsibilities to kids. Increasingly, children's programs (at least on commercial television) have become less about education and enrichment... and more about merchandising. Today's broadcasters too often see children simply as consumers.

Or as Carole Corbeil wrote in a recent Toronto Star article:

If (Canadian) commercial broadcasters and specialty channels were interested in creating high quality, educational programming for children, they surely would have given us a tiny hint of it by now.

What can we do about all of this? We believe that, as a country, it is important for us to take possession of part of the television landscape, and harness the power of the medium for the public good. For providing our kids with a safe, healthy environment in which to learn and grow... and to discover the world around them. That is part of the role that CBC television was given in 1952, and it is important for us as a Committee to assess how well it has handled this public trust.

Children's programming has been a cornerstone of public service television in every country in the industrial world. In part, this is related directly to the recognition that public television has a special responsibility to transmit a society's cultural values, history and traditions to its young people. It relates as well to an intrinsic understanding that nurturing a taste and appreciation for "home grown" programming is a responsible investment, ensuring that our children will develop a clear sense of the society in which they are growing up.

A world summit on television and children was held in Melbourne last March, and it resulted in a charter setting out the responsibilities that public broadcasters should assume with respect to children's programming. They are sufficiently important that we have listed a number of the elements of the charter below:

1. Entertain children and enable them to achieve self-development, without commercial exploitation;
2. Develop the notion of cultural identity and of belonging to a community;
3. Encourage a spirit of openness to the world;
4. Reserve programming slots adapted to children's schedules;



5. Allocate budgets that allow for high quality standards;
6. Regard the children's television sector as a social responsibility.

The importance of quality children's programming would seem to be obvious. From the age of two to 12, particularly, children go through phases of development that fundamentally shape their values, tastes and identities. Because of its importance, we are particularly concerned by the results of our research and consultations.

Our greatest concern is with the CBC's English television network. The CBC has done a much more effective job in providing educationally oriented programming than private broadcasters, but we believe that the English network has a number of serious shortcomings. The CBC has been a major source of programming for pre-school and young children, providing programs such as *Mr. Dressup*, *Fred Penner's Place* and *Under the Umbrella Tree*, as well as the Canadian version of *Sesame Street*. But, the CBC has not done enough to update its children's programming for this age group in recent years and has not developed clear strategies to renew its offerings to young audiences in general.

We are even more concerned that the Corporation has largely abandoned the seven to 11 age group. In renewing the CBC's television licences in 1994, the CRTC argued that the CBC should in future focus more on young audiences, and stressed that this programming should be less commercial and place far greater emphasis on Canadian values.

Our research suggests, as well, that there is no longer an adequate production capability within the English network to support the renewal of its children's programming. We believe it is a matter of urgency that the CBC re-establish a highly creative production unit with responsibility for children's programming. Because of the educational nature of the children's programming required, this is one element that needs to be done in-house to a significant degree. The CBC should continue to acquire independently produced programming, but it must clearly maintain an in-house production core if it is to respond innovatively and coherently to the needs of children.

We are also concerned that the English television service has been devoting just 11% of its schedule to children's programming in contrast to about 20% for SRC (in the 1992-93 season). One of the most important differ-

ences between the French and English services is that on weekdays SRC provides a program service to children in the 4 pm to 5 pm time slot, while the English network runs syndicated American entertainment to generate additional commercial revenues. By comparison with the English network, the CBC French-language network continues to fulfil its responsibilities to children in a reasonable manner. However, we are concerned that the critical mass of programming, staff and resources necessary to sustain this effort at SRC is beginning to be affected by budget reductions. And we fear that the pedagogical tradition of the past 25 years is no longer firmly in place. The strong and versatile core of specialists who maintained that tradition – teachers, psychologists, animators and educational producers – no longer exists as such.

If the CBC is to regain its position as a pre-eminent force in the public life of this country, the process must begin with a rededicated commitment to high quality Canadian children's programming. This is something no other conventional broadcaster can provide and regrettably, the first class children's work produced for Canada's educational networks tend to have limited access to a national audience.

We must expect our national public television service to provide a diverse schedule of imaginative programming that is developed specifically to meet the needs of young viewers at all stages of their development. The Corporation needs to provide engaging, dynamic, and compelling programming that responds to children's special interests and needs. If programs that reflect their lives and validate the experience of growing up in Kitimat, Sudbury or Rimouski are not to be found on the CBC, they certainly will not be found on any other networks. In their absence, our children will be left to emulate the behaviour and values of the *Fresh Prince of Bel-Air* or *Bart Simpson*, both brought to them by the CBC's English service. For most families, this is not a happy prospect.

Later in this chapter, we look at the degree to which the Corporation's performance in children's programming is related to budget reductions and commercial dependence. Whatever the reasons, however, there has been an obvious reluctance on the part of the Corporation to assign the high priority to children's programming that it requires. That priority must be accorded to all segments of this audience, including pre-schoolers, primary school children, and older children in the pre-teen and early teen-age group.

For most of its 43-year history, CBC television took its obligation to serve a wide cross-section of audience needs and tastes very seriously. It meant, for example, that both networks became significant contributors to the arts... and produced a remarkable array of cultural programming: On the English network, arts documentaries by Harry Rasky and Terrence Filgate; ballet productions by Norman Campbell and Pat Ferns; and taped productions of Stratford Festival plays, which invariably reached a higher audience in a single night than Stratford's total box office for an entire season; and at SRC, similar successes in music, opera, ballet and documentaries, featuring the work of remarkable television professionals – Jean Paul Fugère, Louis-Georges Carrier, Paul Blouin, Pierre Gauvreau, Jean-Yves Landry, Pierre Mercure and many others.

Over the past decade, however, the arts have been given less prominence on CBC television, particularly on the English network. *Adrienne Clarkson Presents* continues to provide a rich assortment of arts features and films, but the high profile documentaries and performance specials have largely disappeared. They are seen as being too expensive and having too limited an audience appeal for a CBC preoccupied with financial problems, stiff competition and the need for more popular programming.

This change in program orientation by the CBC was a contributing factor in the Government's decision to introduce a new concept in the revised *Broadcasting Act* of 1991. It made a provision for the creation of "Alternative Programming Services" in Canada, which would be complementary to the mainstream broadcasters. Under the new *Act*, such services would include a strong emphasis on programming devoted to culture and the arts.

For a variety of reasons, the Government chose not to proceed with the Alternative Programming Services over the next three years and in September 1994, the Minister of Canadian Heritage appointed a group of experts to provide advice on whether the Government should finally take steps to implement this new provision in the *Act*.

The group of experts (chaired by Peter Grant) was asked to decide whether Alternative Programming Services were required; which needs were not being met in the programming offered by existing broadcasting services; which programming categories were under-represented, whether there was a

demand for such programming, and how those needs might be met. Finally, the Grant committee was asked to consider the appropriate role of Canada's public broadcasters, including the CBC and provincial educational services.

The group of experts interpreted the term "alternative programming" in the *Broadcasting Act* to embrace Canadian programming in drama; children's programs; long form documentaries; and music, dance and variety programs. They placed particular emphasis, however, on what they termed "innovative and multidisciplinary programming from Canada and the rest of the world relating to culture and the arts." In choosing this emphasis, they noted that such programming plays a special role in educating and elevating our society, and that arts programming should be emphasized in any strategy to increase the production of alternative programming.

After extensive discussions, the Grant committee concluded that CBC remained the centrepiece of any strategy to support new Canadian production in the under-represented categories, particularly the performing arts. The report argued that the need for the CBC to play this role had to be kept in mind in any re-evaluation of the CBC's mandate that might arise from funding cutbacks.

In identifying the CBC as the organization most essential to success in providing arts programming, the Grant committee also examined other possible contributors. The panel concluded that private broadcasters would inevitably focus on more popular productions, and therefore only limited reliance could be placed on them for performance programming in culture and the arts.

Further, in examining the potential of pay and specialty services, the report concluded that they were "inherently limited in the extent to which they can (financially) support original Canadian production in the under-represented categories." The Grant committee saw pay and specialty services (like Bravo!) providing some new funding for production, and additional "windows" and financing for programming originally produced for other broadcasters.

The report concluded that a new stand-alone performing arts channel (like the ARTE model in Europe) was not feasible, and that public policy should emphasize ongoing support for "the public and private programming undertakings that now exist, and on ensuring that alternative programming continues to be an important part of their mandate."

An important part of the reasoning behind the Grant committee's recommendations was the clear recognition that performing arts productions were an expensive proposition – well beyond the resources of pay and specialty services and of little interest to private broadcasters. It was almost by default up to the CBC to get the job done.

The Grant report thus reached the same conclusion that our Committee has reached – if Canada is to provide a real alternative in under-represented program categories like drama, children's or the arts, most of the responsibility will inevitably fall on the CBC's shoulders.

The CRTC made the same point in reviewing the CBC's network licences in 1994. The Commission noted that the CBC's English network had been unable to meet the CRTC's goal of providing a minimum of 12 productions a year by Canadian performing arts groups or companies, while the French network had far exceeded the requirement. The English network argued that the cost of these performing arts productions was simply too high to achieve the expected volume. Not surprisingly, the CRTC wondered why this was the case for the English network, and not for the French network.

Given the role that we believe the CBC should play in Canada's cultural life, we find the CRTC's target to be a modest one. Through the Canada Council, Canadians have invested an enormous amount of money to develop strong performing arts companies, talented performing artists and a Canadian repertoire in which they can perform. It seems to us – as a fairly straight forward axiom – that it is an essential function of a public broadcaster to provide a regular showcase for these performing arts companies, and to make their work available to viewers across the country.

## LOCAL AND REGIONAL PROGRAMMING

In our earlier section on CBC radio, we expressed the view that much of radio's success comes from the fact that it is rooted in communities across the country. As a result, it has been able to create a truly national service – one which people in Edmonton, Quebec City or Halifax think of as *their* radio service. Each of CBC radio's stations combines a *unique* blend of local, regional and network programming, and each station provides a community service that responds to the particular needs of listeners in that part of the country.



We believe that CBC television needs to be equally rooted in communities across the country to be able to provide a distinctive national service to Canadians.

This has been strongly advocated over four decades by parliamentarians, community leaders, royal commissions, and by the CRTC. It was a central theme in the Caplan-Sauvageau report in 1986... and expressed even more passionately in the 1988 report of the Standing Committee of the House of Commons, called *A Broadcasting Policy for Canada*.

The Standing Committee's report expressed strong concern about the decline in CBC funding for regional production, which dropped from "just over a third of CBC's television programming budget in 1981-82 to just under a quarter in 1988-89." The committee quoted Al Johnson, the former president of the CBC, as follows:

I think that for the public broadcasting service to have to reconcile itself to being (only) a network service would be a little like saying – let us have a Canada without the Provinces.

Two years later, the CBC responded to further cuts in its Parliamentary appropriation by closing a number of television stations across the country. By 1991-92, the proportion of CBC's television programming budget allocated to serving regional needs had declined further – to 16%, less than half the level it had been a decade before.

In its June 28, 1991 decision concerning the CBC station closings, the CRTC expressed dismay about the sharp drop in regional resources and asked the Corporation rather bluntly whether it would still be "able to reflect the diversity of needs, viewpoints and cultural perspectives of Canadians." The CRTC concluded by saying:

The Commission considers that the Corporation will have to allocate far greater resources to its Provincial operations if its claim to be "rooted" in the regions is to have real validity.

The Committee believes that this is one of the most important questions that the Government and the CBC Board must address. Either the CBC's stations across the country need to be substantially strengthened in order to

serve the special needs of each region, or it will become more and more difficult with each succeeding budget cut to explain why the CBC does not simply abandon what can only be described as a partial service.

Several influential newspapers in central Canada have made the case in the past year that CBC television should, in fact, withdraw from its long standing regional role and concentrate its energies on providing a first class network service. The argument has two main elements: first, that the CBC cannot afford to provide an effective regional service, and the Corporation would be wiser to reallocate its existing regional resources to strengthen other areas of programming; and secondly, that the private broadcasters are doing an adequate job in providing local and regional services across the country.

We have looked carefully at these arguments, but in the final analysis, we simply do not accept them. Our discussions with people across the country have convinced us that the Corporation's local and regional role is too important to the individual communities, too important in reflecting the diversity of the country, and too important to the future of the CBC to abandon.

Having reached that conclusion, we do recognize the validity of the two main assertions in the argument – regional resources are severely stretched and private broadcasters are, in fact, doing a solid job in providing local news coverage in most centres across the country.

This suggests the need for a fundamental shift in CBC's thinking about its regional program activities:

- The CBC should reallocate funds from non-programming sources to strengthen its regional program service.
- The CBC should give its local management far greater flexibility in developing programming suited to the needs of each particular region.
- The CBC's regional stations will have to learn to work "cheaper and smarter."
- The CBC should continue to provide a strong local news and current affairs service in each community, but should focus on being a clear alternative to the private sector. Instead of merely competing head to head with local newscasts, the CBC should concentrate instead on cov-

ering the major issues, preoccupations and stories that make each community unique. It should provide background, analysis and perspective that no other broadcaster can provide.

- CBC stations should concentrate on providing the best news and current affairs service in each region and stop worrying about competing for ratings and revenues.
- The CBC should provide more thorough and thoughtful coverage of business, labour, science, natural resources, education and health issues.
- The CBC should provide more coverage of the arts, and provide a major regional showcase for emerging talent. *Up on the Roof*, produced by CBC Halifax, would be a good role model for other stations.
- The CBC should provide more documentaries, biographies and distinctive regional shows like *Land and Sea*. Much of this work can be done in cooperation with independent producers and the NFB's regional offices.

In other words, CBC regional programming has to become more distinctive, more imaginative, more thoughtful, and more of an alternative... and not a pale imitation of what private broadcasters already do well. We believe that this could be a formula for rebuilding the loyalty of regional audiences across the country.

#### SRC'S LOCAL AND REGIONAL PROGRAMMING

Obviously, the situation for SRC's regional television stations is very different, particularly for those serving the needs of French-language minorities outside of Quebec.

Their role is not to be an alternative to French-language private stations, because there simply aren't any private French stations outside of Quebec, except in the Ottawa-Hull region. The only other French-language service in the country outside of Quebec is provided by Ontario's educational network (TFO). Not only are SRC's regional stations the only television service available, but they're invariably the region's most important francophone cultural institution. They are a key pillar in the community, and are a critically important symbol of Canada's dedication to its two official languages.

In our consultations across the country, we met with the representatives of these communities. They were passionate about the role of the CBC's French-language service, and its unique contribution to their cultural survival and development.

In August 1994, the Government announced a policy to provide assistance to francophone and anglophone minorities. The policy was established under sections 41 and 42 of the *Official Languages Act*. It commits the Government to promoting the full recognition and use of French and English in Canadian society, and to assisting in the development of francophone and anglophone communities that exist in a minority situation across the country.

The CBC has been asked to provide program support to these communities, and we strongly endorse this concept. The Committee sees it as another way that the CBC can serve the regions of the country more effectively.

#### NORTHERN PROGRAMMING

One of the most important elements of the CBC's service at the regional level is its service to the over 200,000 inhabitants of Northern Canada. The CBC's Northern Service comprises both radio and television, and covers one third of Canada's land mass stretching across four time zones – from the Yukon in the West, to the Northernmost Arctic islands, to Northern Quebec and Labrador in the East, and to James Bay. The Northern Service plays an indispensable role in linking northerners to each other, to the country, and to the rest of the world.

The radio service provides 220 hours of programming weekly, in English and French, and including roughly 100 hours of programs in ten native languages. The television service includes two and a half hours a week of programming produced in the North (including native languages programs) that cover the regions' news, current affairs and social life. Only a public broadcaster could devote this kind of attention to the communications needs of this critically important part of our country. The CBC's Northern Service deserves commendation and credit.

## REGIONALLY PRODUCED NETWORK PROGRAMMING

From the earliest days of CBC English television, network programming has come from production centres across the country. They include some of the CBC's most memorable programs – *Singalong Jubilee* (which first introduced Anne Murray to a national television audience) and the wonderfully biting satirical program, *Codco*, from Halifax; from Vancouver, *Danger Bay* and *The Beachcombers*, which established Bruno Gerussi as one of Canada's most popular performers; *The Canadian Establishment*, *The Lawyers*, *The Watson Report*, *The Tenth Decade* and *The Days before Yesterday*, all produced by Cam Graham in the CBC's Ottawa production centre; *The October Crisis* and the highly acclaimed drama series, *Empire*, both produced by Mark Blandford in Montreal; and one of Canada's most enduring religious programs, *Hymn Sing*, produced out of CBC's Winnipeg studios.

Over the past few seasons, *This Hour has 22 Minutes*, *Theodore Tugboat* and *Street Cents* have all been produced in Halifax; *North of 60* has been produced independently outside of Edmonton; *Country Canada* has been produced in Winnipeg; *Canadian Gardener* and *Odyssey* have come out of Vancouver; and CBC Calgary and Halifax continue to provide the bulk of the daily news programming on *Newsworld*.

We are convinced this is the other way that the English network becomes deeply rooted in the regions. Most of this regionally produced network programming reflects the unique character of each part of the country, and it provides a national showcase for our best writers, performers, filmmakers and producers.

We are concerned, however, that the English service has reduced its emphasis on regionally produced network programming over the past five or six years, and we believe that English television should produce a great deal more of its network schedule outside of Toronto. We would encourage the CBC to provide the development money, the financial incentives and the creative support to make this a reality over the next three years.

The situation is quite different on the French side. As we indicated earlier, SRC's regional stations (outside of Quebec City, Moncton, and Ottawa/Hull) do not have either the production capability or the financial resources to program regularly for the network. They are asked, however, to produce items or stories for specific network programs, mostly in current



affairs. It's meant that regional stations have been able to contribute an average of about 15% of SRC's network programming over the past three years, and we encourage the continuation of this approach.

### 3.6 THE CBC'S COMMERCIAL IMPERATIVE

Over the past four decades, CBC television has struggled to reconcile the two contradictory aspects of its mandate. On the one hand, it is a public broadcaster, committed to providing a wide range of programs that inform, enlighten and entertain its audiences; it's expected to provide distinctive Canadian programming and offer a quality alternative to commercial broadcasters; it's expected to serve the general needs of its audience as well as the more specialized needs of particular (or minority) audiences; and it's expected to contribute actively to the flow and exchange of cultural expression in Canada.

At the same time, CBC television has been set up as a commercial broadcaster, and is expected to generate a substantial proportion of its revenue from advertising. In order to achieve that goal, its program decision making has to flow from a series of choices based on commercial considerations.

As we have pointed out throughout this chapter on the CBC, this inherent contradiction means that the CBC has often behaved in a schizophrenic way, making program choices that seem (depending on the circumstance) inexplicable to either its public broadcasting advocates or to the commercial marketplace.

We have also pointed out that over the past decade, CBC's dependence on advertising... and its aggressive pursuit of commercial revenue... have become far more pronounced. We have explained the CBC's strategic thinking about this change of emphasis in some detail.

In our opinion, however, the CBC's pursuit of its commercial imperative has now assumed such influence over its programming and scheduling decisions that the CBC's public service role has been fundamentally compromised. Before developing that theme further, it may be useful to provide some historical perspective to see how the CBC got into this position.

Until the mid 1970s, the CBC did a remarkable balancing act between its public service goals and its commercial requirements. The English and French television schedules carried an average of only six minutes of advertising an hour, and large parts of the CBC's "mandate" programming were resolutely non-commercial.

By the mid 1980s, however, those same television schedules carried the CRTC maximum of 12 commercial minutes per hour, and commercials began to be introduced into areas of programming – like current affairs and serious drama – that had been commercial free.

The next step in the commercialization story began in the mid 1980s, as the CBC began to face a series of cuts in its Parliamentary appropriation. In order to offset the impact of a 23% reduction (in constant dollars) over the next decade, the CBC became far more aggressive in attracting advertisers, and its commercial revenues rose by about 72% in the next eight years, peaking at \$313 million in 1991-92.

The story, however, did not have a happy ending... and it ultimately resulted in the worst of both worlds for the CBC.

The recession of the early 1990s, the increased competition, and the resulting audience fragmentation led to a levelling off in CBC advertising revenue... and by 1994-95, its commercial revenue had dropped back to \$297 million. In other words, it had become clear by the end of the 1994-95 season that the CBC's more ambitious commercial strategy was not going to be a viable way of offsetting the major reductions in its Parliamentary appropriations.

Unfortunately, however, much of the program damage had already been done. In the ten year period starting in 1985, the English and French networks both made major changes in their schedules. Determined to be more competitive (in audience terms) and more commercial (in revenue terms), the networks began to carry far more sports, more light entertainment, and more popular drama. The English network continued to rely heavily on American entertainment programming in its daytime schedule.

This led, inexorably, to a number of other changes. The combination of higher revenue targets and Parliamentary reductions prompted the CBC to become less preoccupied with serving both general and more specialized

audiences; the networks became less distinctive and less of a quality alternative; and the English network, in particular, gradually reduced its emphasis on children's programming, science, the performing arts, serious drama, current affairs documentary series, regionally produced network programming, and its funding of local and regional programming.

The decision to pursue commercial revenue more aggressively turned out, in our opinion, to be a Hobson's choice – it did not solve the CBC's funding woes ... and it seriously distorted the CBC's program priorities.

It had one other significant implication for the broadcasting system as a whole. It heightened the sense among private broadcasters that the CBC was a direct competitor; not only for programming and audiences, but also for commercial revenues – revenues that were of growing importance to private broadcasters facing an increasingly fragmented and competitive marketplace.

It was extremely damaging for both English and French language private broadcasters, and it contributed, in no small measure, to significant cuts in program expenditures by Quebec's commercial broadcasters after 1991.

In a brief submitted to the Committee, the TVA network underlined this point:

If current trends persist, there is every reason to fear that the (public television) partners in the system will end up completely ignoring their responsibility to achieve complementarity, and engage in fierce, unfair competition that is disastrous for the future of the French language broadcasting system.

The Committee also heard a number of representations that the CBC's approach had the same effect on English language private broadcasters – it had reduced their ability to make a greater ongoing contribution to Canadian programming as well.

We have concluded, after sifting through all of the information on the CBC's commercial practices, that it is finally time to face up to the fundamental contradictions that have plagued CBC television from the beginning. We believe that it is now time to find other ways to finance the Corporation, and to allow CBC television to become the public broadcasting alternative that Canada so badly needs.

### 3.7 CBC AFFILIATES

The internal contradictions that we described in Section 3.6 are complicated even more by the CBC's somewhat uneasy relationship with its private affiliates.

The CBC's program services are distributed by a combination of the CBC's owned and operated stations and 25 private affiliates (20 for the English network and five for the French network).

The English network affiliates are contractually obligated to carry about 37 hours of "full network" programming each week, and have the option of carrying additional CBC programs at their discretion. The majority of the affiliates, as a matter of commercial necessity, fill most of the rest of their schedules with American programming. The French network affiliates are obligated to carry about 49 hours of network programs per week. The CBC provides an annual payment to each affiliate for carrying the CBC schedule.

The affiliate relationship has always been a mixed blessing for the CBC. It allows the CBC program service to be delivered inexpensively to a significant portion of its audience (16% of the Canadian population). But it also involves ongoing pressure from the affiliates to keep the CBC program schedule as commercial as possible; and it means that the Corporation has to live with the affiliates being able to replace a number of CBC prime time programs each week with more commercial fare (usually American entertainment), and rescheduling the CBC programs in less favourable times.

This has been another example, over the years, of the CBC having to live with the ambiguities of being simultaneously a public service broadcaster and a commercial broadcaster.

But, if the CBC abandons its commercial role over the next few years, fundamental changes will have to occur in the relationship with the affiliates.

There are three possible options, and none of them are ideal:

- The CBC could end its relationship with its affiliates, and replace each of them with a rebroadcasting transmitter. It would mean that the affected viewers would receive a full Canadian CBC service, rather than the "diluted" program service they are now getting. This represents a real

benefit for viewers who may not get to see important CBC shows like Adrienne Clarkson Presents in prime time (because they are not part of the CBC's "reserve time" service that affiliates are obligated to carry). It would also mean that the CBC would no longer have to spend \$15 million each year in affiliate payments. But this option also has several significant disadvantages: a number of the smaller affiliates would not be able to survive as independent stations without the CBC's affiliate payments and programs; and the disappearance of the affiliates' local news programming would represent a real loss for viewers, and would almost certainly result in a drop in audience for the CBC network service.

- A second option could involve the renegotiation of the overall affiliate agreement, whereby the affiliated stations would agree to carry the CBC's full network service on a commercial free basis. The affiliates would program only the portions of the CBC schedule assigned to local and regional programming, including the early evening period from 6 to 7 pm for local news. This option would probably be attractive for the viewer, but the CBC would clearly have to compensate the affiliates for their commercial losses and it would be an extremely expensive proposition.
- A third possibility would be a variation of the previous option. The affiliates would be given the 4 pm to 7:30 pm period each day, to program as commercial time. This approach has serious limitations, particularly if the English network begins to use the late afternoon period for children's programming (as the French network does now). It would have the advantage, however, of reducing the CBC's "compensation" to the affiliates, and it would mean that all Canadians had access to the CBC's entire prime time schedule.

We deal further with these options in section 6, *Financing the New CBC*.

### 3.8 DISTRIBUTION OF CBC TELEVISION SERVICES

In its 1995 report, the House of Commons Standing Committee devoted a great deal of attention to the issue of CBC distribution. In particular, it examined whether the CBC could save significant amounts of money by shifting all of its distribution activities to satellite and cable, and phasing out the CBC's "over the air" transmitter services over the next few years.



The Committee explored the same issue in some detail, and examined whether there were real distribution alternatives now available to the CBC Transmitter System. In looking at this issue, we were mindful of Canada's long standing tradition of providing universal access to CBC television's main services.

Reluctantly, we have come to the conclusion that such a shift in distribution is still premature. More than one third of CBC's Francophone viewers and almost 25% of Anglophone viewers now receive their program service by transmitter and most of these viewers would be disenfranchised by the elimination of the CBC transmitter network.

We are not yet convinced that alternative distribution technologies will be available in the near future to provide *all* of these viewers with a replacement signal at an affordable price. We're also struck by the fact that no such distribution shift is being contemplated by Canada's conventional private broadcasters, or by the U.S. networks.

We do believe, however, that there may be some distribution cost savings available to the CBC. The CBC has already sub-contracted about 50% of its distribution activities, and we think that savings with respect to the terrestrial distribution system should be explored. We note that ITV has saved a significant amount of money by contracting out its entire transmitter system in Britain, and we think that the CBC should seek proposals from the private sector to test the feasibility of a similar approach in Canada.

The Committee also looked at the fact that the English and French networks operate 31 program streams (or feeds) each day, using both satellite and terrestrial microwave technology. These feeds are used for news gathering, news transmission, and for moving program elements back and forth between stations and the network, as well as delivering the network feed across the country's time zones for schedule delay purposes.

We have done some research that suggests there are problems in allocating some of the news gathering costs – they are currently charged to distribution instead of programming, and we suspect that this leads to a significant over-use of the service by program producers. Our research also suggests that the number of daily feeds could be reduced significantly. Both of these changes could result in substantial savings for the Corporation.

### 3.9 TRANSFORMING CBC TELEVISION

Over the past 40 years, CBC television has received more than its fair share of both criticism and scrutiny. But the CBC's main television networks have made an extraordinary contribution to the cultural and political life of this country. They have produced Canada's most memorable programming; they have produced (or licensed) an overwhelming percentage of the indigenous programming on our airwaves; they have created a showcase for Canada's most talented performers and artists; they have chronicled the major events and issues in our public life and sensitively reflected this country's endless diversity; they have developed most of the programming in the chronically under-represented categories – drama, children's, the arts, science and documentaries; they have made the largest single investment by a broadcaster in Canada's independent production industry and in Canada's feature film sector; and they have attracted the great bulk of the viewing devoted to Canadian programs.

CBC television has given us a remarkable legacy, and we believe that Canadians have received a very high return on their long term investment in CBC television.

But as we have indicated throughout this chapter, we are convinced that the CBC's English and French networks will have to go through a fundamental transformation over the next few years in order to play an equally indispensable role in the 21st Century.

The broadcasting environment has gone through dramatic changes in the past decade, and we believe that CBC television must adapt quickly to those changes. We do not believe that the CBC's drift away from its original mandate... and its more competitive and commercial posture since the mid 1980s... has served its audience, the industry or this country particularly well.

The Committee – and the vast majority of the people we consulted – believe that CBC television must carve out a more distinct and unique role in the 21st Century, and has to become the dynamic public broadcasting alternative that we described in earlier parts of this chapter.

Given the range of other broadcasting services now available and declining CBC resources, it means that the Corporation can no longer be all things to all people... and that the two networks will have to pick and choose their pro-

gramming priorities far more precisely. It also means, in our opinion, that the CBC can no longer be the hybrid that it has been for the past four decades.

#### **RECOMMENDATION:**

**CBC television must become a new kind of general interest public service that rededicates itself to the principle of serving both the needs of a general audience and the needs of more specialized audiences.**

#### **RECOMMENDATION:**

**Both CBC television networks should continue to provide programming that informs, enlightens and entertains their audiences. But their program services should be distinctively and almost totally Canadian; they should be a clear and intelligent alternative to commercial television; and they should be committed to quality, innovation and public service.**

#### **RECOMMENDATION:**

**CBC television should provide a public broadcasting service for all Canadians, at least some of the time. It should not focus its efforts on being a narrowly cast service for an elite audience.**

#### **RECOMMENDATION:**

**CBC television should concentrate on being a high quality Canadian alternative in the following areas: in news and current affairs journalism; in distinctively Canadian drama; in arts and science; in children's programming; and in unique Canadian comedy and variety programming.**

#### **RECOMMENDATION:**

**CBC television should provide program schedules that are unmistakably Canadian. As a result, CBC's English television network should abandon its prime time**

American commercial programming; its American syndicated shows in the late afternoon; its American “soaps” in the early afternoon; and both networks should replace the Canadian programs in their schedules that are there primarily for commercial reasons or are merely pale imitations of American commercial formats.

#### **RECOMMENDATION:**

CBC television should, however, continue to acquire and schedule the best programming produced around the world, on a selective basis. This programming should be chosen for its quality and not for its commercial potential. The critically acclaimed British drama *The Politician’s Wife*, currently running on CBC English television, and the Franco-Italian co-production, *La chambre des dames*, to be aired later this season on SRC, are useful illustrations of foreign programs that clearly enhance CBC’s schedules.

#### **RECOMMENDATION:**

CBC television should dramatically reduce its emphasis on sports. It should stay in hockey, the Olympics, major Canadian events like the Grey Cup and the Briar Curling Championship, and a wide range of amateur sports; but it should work more closely with other broadcasters to share “rights” and to avoid the kind of sports congestion that occurs during the NHL playoffs.

#### **RECOMMENDATION:**

CBC television should phase out its commercial advertising activities over the next four years, except in areas such as sports (in which the program rights are only available on a commercial basis). This would greatly strengthen the CBC’s role as a public broadcasting alternative, and provide new (and much needed) revenue for private broadcasters to play a more active role in Canadian production.

**RECOMMENDATION:**

The Corporation should renegotiate its affiliate agreement to allow all Canadian viewers to receive the full, prime time network service from the CBC.

**RECOMMENDATION:**

CBC television should produce as much of its network programming across the country as possible.

**RECOMMENDATION:**

CBC television should continue to employ a critical mass of creative and journalistic talent to produce a wide range of its programming “in house” ; but the majority of its programming (outside of news, current affairs and sports) should be produced by the independent production community.

**RECOMMENDATION:**

CBC television should maintain an active local and regional programming role, and provide a clear alternative to local commercial broadcasters.

**RECOMMENDATION:**

CBC television should negotiate a “preferred supplier” relationship with the NFB, which would include a commitment to a specified number of NFB productions being aired on both main networks, as well as Newsworld and RDI, on an annual basis.

**RECOMMENDATION:**

CBC television should become a leading content provider in the new media, much as the Corporation provided essential Canadian programming in the early days of radio and television.



**RECOMMENDATION:**

**CBC television should measure its audience performance far more on its ability to “reach” most Canadians in the course of a week, than on the traditional marketplace test of “audience share.”**

We believe that these changes are essential to transforming CBC television into a distinctive public broadcaster. We are equally convinced that these changes will make CBC television as unique and indispensable as CBC radio, and will attract the loyalty and support of Canadian taxpayers and viewers.



## 4. MEASURING CBC'S SUCCESS

If CBC television becomes more like CBC radio over the next few years – distinctive, Canadian and predominantly non-commercial – both television networks can be expected to provide far more drama, children's programs, documentaries, and arts and science programming than Canadians will be able to find anywhere else. But how will we know if the CBC is living up to this promise to provide a high quality alternative to commercial television and radio?

What is needed is an audience research system that regularly interacts with a representative cross-section of Canadians to get an assessment of the CBC's quality and standards, and a clear indication of audience needs.

We believe it is important to understand just what audience research can and cannot tell us about performance. We wish to establish two essential points. How the audience "share" story is told for the CBC and SRC depends on how the research is done, and on what is measured. But even more important, the story involves the need to develop better ways to measure how many viewers or listeners a public broadcaster is reaching and satisfying...and the need for clear management goals.

Traditionally the main measure of all broadcasters' performance has been audience "share," defined as the *percentage* of viewing or listening captured by a particular program or station group within a specified period. It is often misinterpreted, e.g. while CBC English television's share in the 1994-

95 season was 12.9%, this has led some people to conclude wrongly that only 12.9% of Canadians ever watched CBC television.

Reach, by contrast, is defined as the *number* of people who have tuned in for a specified amount of time to a particular station group in a specified period.

Like its public broadcasting counterparts in Britain, France, Australia, Germany and Japan, the CBC has a wide range of current performance benchmarks (over 100). There is a remarkable consensus worldwide about what general criteria can be used to evaluate the popularity and quality of a public broadcaster... but no consensus as to *how* to do it.

Based on the premise that performance indicators work best when you "keep them few, and keep them simple," we propose just five success criteria for the CBC: 1) share of viewing for Canadian programs; 2) time spent with the CBC; 3) cumulative use of radio and television; 4) value for money; and 5) diversity in program supply and viewing of programming.

#### THE PROBLEMS WITH AUDIENCE SHARE DATA

One of the difficulties we have in gaining a fair assessment of public support for the CBC's television service is: which services do we use as a basis for comparison? The services most commonly compared are the CTV network on the English side and TVA on the French side. Yet in many ways, neither network provides a good comparison. There are two reasons for this.

First of all, both CTV and TVA are cooperatives of separately owned station groups. In scheduling their networks, both CTV and TVA have a strictly limited number of hours (40 for CTV) to work with. Member stations are left free to buy, produce and schedule most of their programming (American and Canadian) on their own. The comparisons made in Nielsen audience share data between the CBC and CTV or between SRC and TVA are, therefore, somewhat misleading, since they are derived from a very different base of hours for network-originated programming. Yet the audience performance for say, CTV's network program hours, is rarely reported separately.

The second difficulty in making comparisons between broadcasters is more qualitative than quantitative. Our stated position in this report is that the CBC must offer programming that is both a high quality and general inter-

est alternative to private broadcasting and specialty services. Our model for CBC television does not suggest a narrow niche. It is far more pluralistic than elitist. In other words, while the new CBC must strive to provide a “quality alternative,” it must also take seriously its mandate to serve a wide cross-section of audience tastes and needs. While we recognize this is a challenging task in the multichannel universe, we also believe this is the only way for the CBC to survive.

In some of the more specialized programming areas like arts and science, where there is less choice available, the CBC is running into competition not from CTV or TVA or the American networks, but from new “high-end” cable-based networks as well as other publicly funded broadcasters. These include Arts & Entertainment (A&E), the Discovery Channel, The Learning Channel, and Bravo!, as well as broadcasters like PBS, TVOntario and the Knowledge Network – all of whom carry programming that to some degree parallels the CBC’s schedule.

Remaking the CBC television networks in the way we suggest will have important consequences for the future of CBC’s audience share. Placing the onus on the CBC to Canadianize its full schedule, and to diversify into areas with minority appeal, necessarily implies trade-offs in the total share or reach expected. We wish to be very clear. Given the current rate of audience fragmentation and historic trend lines, we believe that CBC television’s share will almost certainly decline over the next few years. This prospect should not deter the CBC, in any way, from serving the needs of both a general audience and the needs of more specialized audiences (at least some of the time).

#### SHARE OF VIEWING FOR CANADIAN PROGRAMS

As the CBC’s full-day schedule becomes almost totally Canadian, its networks should have a very clear picture of how popular their Canadian programs are compared to the Canadian offerings of their competitors. We do not expect the CBC’s overall share of viewing time devoted to Canadian programming to fall as a consequence of our proposals.



## REACH AND TIME SPENT WITH THE CBC

The Committee's public broadcasting model suggests that while individual Canadian programs will be designed to appeal to particular interests or segments of Canadian society, the English and French network schedules as a whole should cut across a wide cross-section of tastes and groups.

As a result, we need a measure of popularity which identifies the degree to which Canadians as a whole take advantage of the CBC in their day to day lives... and through the different stages of their lives.

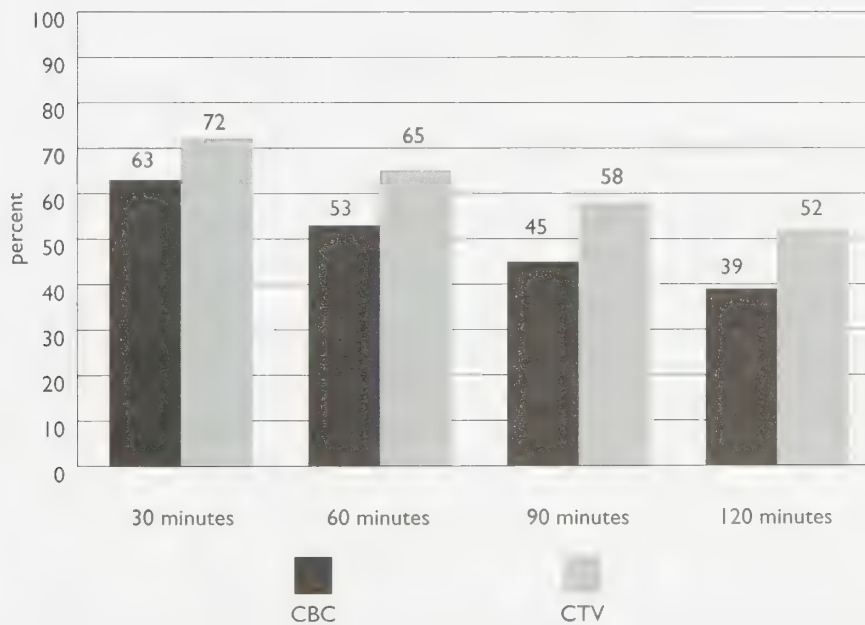
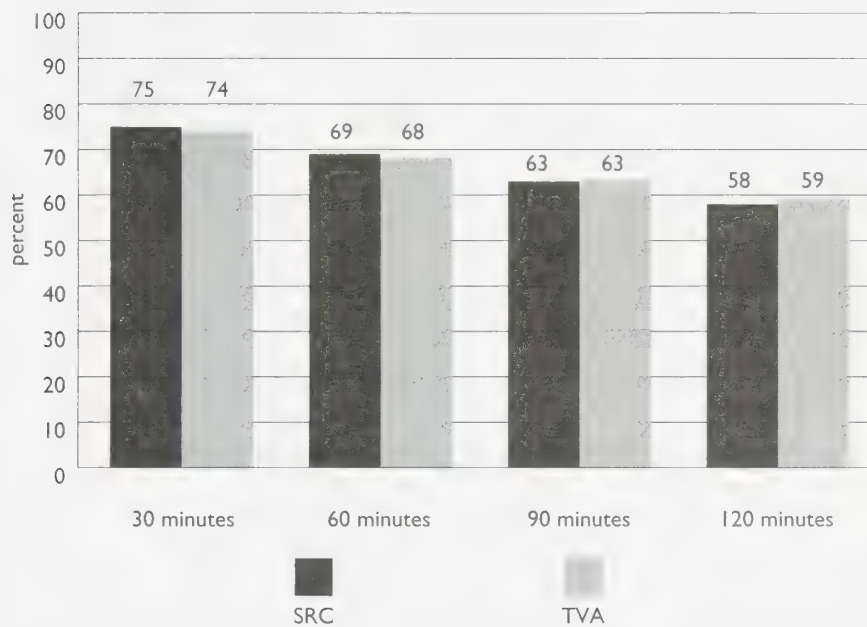
Canada's broadcast industry has developed a measure of reach based on the *number* of people who spend a specified amount of time with a particular station group in one week, based on at least one minute's television viewing. The problem with this statistic is that it lacks credibility: the threshold of one minute is simply too low.

As Graph 6 illustrates, 75% of Francophones spend at least 30 minutes watching SRC per week, and fully 69% spend at least an hour a week with SRC; 63% of Anglophones watch the CBC's English network at least half an hour a week, and about 53% watch at least an hour weekly.

But not all Canadians watch television every week. Nor is it realistic to expect the CBC to reach *every* Canadian *every* week. One solution would be to extend the benchmark period to four weeks and deal with more reasonable amounts of viewing time, between one and 10 hours. Using that approach, we find that 60% of the Anglophone population watches CBC at least five hours a month, and about three quarters of the Francophone population watches SRC for more than five hours a month.

The Committee has heard proposals that a feasible benchmark might be to expect CBC television to reach 50% of Anglophones or 66% of the Francophone community for at least an hour a week. Setting different success levels for the English and French networks is justified, in our opinion, because of the different levels of competition and the patterns of audience loyalties already established for English and French television. Some have suggested that an hour is not enough time to meet the test of relevance or value for money. Taxpayers who support a public broadcaster, in this view, have a right to see themselves or their interests reflected on the screen or on

Graph 6  
WEEKLY USE OF SRC, TVA, CBC AND CTV  
SEPT. '93 - AUG. '94  
(2 years of age and over)



Source: CBC Research (A.C. Nielsen)

radio for a reasonable amount of time each week. But how much time is enough to prove the public broadcaster is relevant?

We do not take a position on the specific reach target to be set, but note the need for CBC Research to develop new measures of reach and time spent with CBC. These must be matched by the development of a programming strategy to increase the reach and average time spent with the CBC. We believe that the CBC management should set reach targets. The goal should be to increase average time spent with the public broadcaster over the coming years.

#### **RECOMMENDATION:**

**The Committee recommends that the CBC develop new success criteria to evaluate its performance in attracting audiences to Canadian programs: in particular, share of viewing for Canadian programs and relative reach or time spent with the public broadcaster.**

These new performance criteria should be developed in consultation with industry experts, be reviewed by the Parliamentary committee and used in the next round of CRTC hearings on network licence renewals.

#### CUMULATIVE TUNING TO RADIO AND TV

The Committee notes that the quality of the data available on radio consumption in Canada is relatively inferior. We encourage the CBC to develop a "total reach" figure on the amount of time Canadians spend with CBC television and radio combined in a given period.

#### OTHER QUALITATIVE PUBLIC OPINION BENCHMARKS

A number of other measures have been developed over the years, both by CBC and others, to survey the public's views on the value and importance of the CBC. These deal with, for example, its role as news leader and as a primary and credible source for different types of information, and the quality and relevance of its children's, performing arts or other types of programming.

Measuring the quality of the public service broadcaster—benchmarking excellence—is complex. The Committee commends the standards and degree of innovation in the Audience Research Department of the CBC. We believe the Corporation should further develop and expand the annual tracking of:

- the importance attached to the various CBC services (e.g. French language radio, English language television)
- the degree of satisfaction with these services
- the perceived overall quality of the networks
- the evaluation of accuracy, reliability or bias in news coverage
- the perceived value for money compared to other services.

This research should be extended not only for under-served national and regional audiences, but also for different target groups across Canada such as children to test the diversity in cultural appeal. The CBC should explore partnerships with Statistics Canada and other research agencies for the collection of this more qualitative public opinion data.

One final criteria is worthy of specific mention, given the recent political experience: the evaluation of editorial balance.

The Committee believes that the monitoring methods put in place by the CBC's Office of Media Accountability to analyse the contents of newscasts during election or referendum campaigns are sound, but need regular review of methods by an independent jury of experts as well as full public release. Surveys of perceived levels of credibility or trust in the news, as well as perceived bias, also play an important role in assessing journalistic impartiality. These are commissioned as needed by the CBC Board or management. They should be conducted not only among the general public but among news professionals, and should be published. Finally, complaints made to the CRTC about bias in CBC coverage should also be tracked and reported by the Office of Media Accountability.

## PROGRAM SUPPLY BENCHMARKS

Every two years, the CBC conducts a full analysis of its contribution to the diversity in program content made available in the Canadian broadcast system. The analysis of the 1994-95 broadcast year is not expected to be available until June 1996, due to the complexity in coding and entering

thousands of computer programs. We believe such monitoring should be conducted annually, and methodology reviewed for efficiency. Supply of original and repeat Canadian programs should be tracked. Such a service will require not only new research partnerships, but also a survey design review and cost sharing.

**RECOMMENDATION:**

**In order to track the CBC's contribution to the diversity of TV and radio programs made available and viewed or listened to in Canada, we recommend that CBC Audience Research consult with other agencies (CAVCO in the Department of Canadian Heritage, Statistics Canada and the CRTC) to improve its audience measurement and to rationalize the resources to do so.**

Many of the broad categories of programs used in the current system are not useful in measuring the diversity we expect from CBC programming. Categories must be defined to measure the specialized fields that we propose the CBC increasingly occupy. Supply of arts, science, educationally oriented programs for children and so on, should be measured on a local, regional and network basis.

These new success criteria will give the Canadian public a more effective say in setting basic programming priorities.

All of this will help the CBC, and other broadcasters, shift their thinking away from *how many* viewers or listeners they can capture – the commercial model of audience maximization – to *how well* they can build a relationship with a smaller but attentive audience. Program quality will have to be evaluated by the strength of the relationship with viewers and listeners, by the depth of loyalty and by the feeling of satisfaction with the “value for money” approach that the new CBC can develop.



## 5. CHANGES IN ORGANIZATION & LEGISLATION

### 5.1 CORPORATE GOVERNANCE

#### HEAD OFFICE

The CBC has announced plans to reduce the size of its head office staff and to sell the present head office building in Ottawa. We agree with these initiatives.

It is important to note, however, that regardless of the size of staff and where it is located, every large corporation has head office functions that must be performed. For example, activities such as finance, legal services, human resources, labour relations and corporate planning are essential to any organization. The important question that has to be addressed is whether all of these corporate activities need to be performed in Ottawa, or in close proximity to the President. Even for functions like finance or planning that should remain part of corporate management, we do not believe that all of the employees in these areas need to be physically housed at CBC's head office.

The location of CBC's head office in Ottawa has always posed a problem. In the network and regional production centres, the head office has been perceived as a bureaucratic entity that is both physically and psychologically distant from the core activities of the Corporation. This has severely restricted the leadership capacity of the President and his senior executives. And it has clearly reduced their exposure to creative and production activities.

The designation of Ottawa as the CBC's head office has also limited the President's ability to recruit senior executives with broadcasting experience

– particularly in the creative aspects of broadcasting. Ottawa is simply not a major production and broadcasting centre – and there has been an understandable reluctance on the part of people with careers in broadcasting to move away from the rest of the industry. Over the years, this problem has affected both the English and French sides of the Corporation, but has posed a particularly serious obstacle on the French-language side. This problem is now as serious as it has ever been, and we fear it will get worse.

We therefore feel the Chair, the President and key corporate officers should move from Ottawa to be in closer proximity to one of the major television and radio production centres, following the example of leading public broadcasters like the BBC, FR2 and FR3 in France, and NHK in Japan. This could be either Toronto or Montreal; but in order for the CBC to attract talented executives from both official language groups, we believe that the new head office should be located in Montreal.

A small core of corporate employees should move to the new head office in Montreal, and the rest of the corporate functions (and the employees assigned to these roles) should be decentralized to other production centres across the country.

The Corporation should maintain a Parliamentary and Government relations unit in Ottawa. This would be an opportunity for the CBC to rethink and reinvigorate this critically important aspect of its operations.

#### **RECOMMENDATION:**

**The Broadcasting Act should be amended to designate the head office of the CBC as Montreal. The President, the Chair and key corporate services should move to Montreal as the current head office building in Ottawa is vacated. Office space should be reserved for the Chair and President in the national capital region. Some of the corporate functions that do not move to Montreal should be moved to other production centres across the country. A Parliamentary, Government and CRTC liaison office should remain in the national capital region.**

## APPOINTMENT OF THE PRESIDENT

The Caplan-Sauvageau report recommended that the functions of the Chair of the Board of Directors and those of the President be separated. The Government accepted this approach and amended the *Broadcasting Act* accordingly. What the Government did not accept was the second part of Caplan-Sauvageau's recommendation – that the President be chosen by the Board rather than by the Government.

We agree with Caplan-Sauvageau. We think that in future the President of the CBC should be chosen by the Board of Directors. We note that this is the pattern that has been followed successfully by both PBS and the BBC for years. With all due respect to CBC presidents past and present, it simply does not make sense that over a period of almost 60 years, so few of the Corporation's chief executives have had direct hands-on broadcasting experience, either inside or outside the Corporation.

**RECOMMENDATION:**

**The *Broadcasting Act* should be amended to specify that the President be chosen by the CBC's Board of Directors and not the Governor in Council, or alternatively, by the Governor in Council on the recommendation of the CBC Board.**

## CLARIFICATION OF ROLES

We think that the change in the way the President is appointed should be accompanied by legislative amendments that would clarify the respective roles of the Board of Directors and the President.

In our view, the Board should be responsible for approving and updating the goals, policies and long-range strategic plans of the CBC, as well as monitoring and evaluating their implementation. The Board must also approve regular, ongoing initiatives such as the annual operating plan, the annual budget and the appointment of senior staff.

The President should be the Chief Executive Officer, and as such, be responsible for the general management of the Corporation, including the super-

vision of all professional staff. The President should be responsible for the development and recommendation of long-term strategies to the Board.

#### **RECOMMENDATION:**

**The Broadcasting Act should be amended to clarify the respective roles of the Board of Directors and of the President. The Board should be responsible for approving the goals, policies and long-range plans of the CBC as well as evaluating their implementation. The President should be the Chief Executive Officer and be responsible for general management and supervision of the staff. The President should develop long-term strategies for recommendation to the Board.**

#### APPOINTMENTS TO THE BOARD

We are aware that the CBC Board has benefited from the presence of very capable and dedicated members over the years. The following remarks are only intended as proposed selection criteria for the future.

The CBC is not a private sector company manufacturing automobiles or providing financial services. It is a critically important public service, which is in the public eye more than any other corporation in the country. The frequent controversies that arise over CBC programming illustrate this point dramatically.

Therefore, the Corporation needs a Board that can protect the CBC's independence and integrity from outside interference, on the one hand, but also can provide the sophisticated leadership that ensures the Corporation is fulfilling its various responsibilities. The more credible the Board, the more it will be able to guide and supervise the Corporation effectively. With this in mind, we would recommend that the Government take the following criteria into account when making future appointments to the Board.

We think it is crucial that the Board include a reasonable number of men and women who have real stature and prominence in their communities or professions – in business, labour, science or the academic world, for example. Other members should have achieved renown in the fields of broadcasting,

journalism or the arts. And given the complex corporate and financial issues the CBC deals with on a continuing basis, we believe that the Board should include members with high level corporate management skills.

Finally, we believe that Board members with a strong political background can provide some clear benefits. We want to stress, however, that the integrity of the Board and the independence of the Corporation would be enhanced if directors with known political affiliations represented the full political spectrum and not just the governing party. We note that this pattern has been followed by successive British governments and has, in our view, helped to preserve the BBC's independence and prestige.

## 5.2 CHANGES IN THE INTERNAL ENVIRONMENT

Every large organization with a long history and a rich tradition invariably develops its own way of doing things. It shows up in the day-to-day routine of administrative and procedural activities that become second nature to those on the inside, but are often bewildering to the new employee or the outsider. It is manifested in the language and "short hand" that insiders use to describe their work and their ambivalent feelings about the institution. And most of all, it is reflected in the value system that permeates the organization.

The CBC's internal environment has all of these characteristics, and they are both a source of strength and weakness for the Corporation. At a positive level, it means that the CBC has a strong institutional memory, and passes on the values and standards of public broadcasting to each new generation. But at a more negative level, it means that the Corporation has become increasingly insular, resistant to change and preoccupied with its own set of "entitlements."

It is one of the great paradoxes of the CBC that while it has been forced to adapt continuously to a rapidly changing external environment over the past 15 years, the internal environment has adapted much more slowly... despite the CBC being under severe financial pressures.

The Mandate Review Committee spent a good deal of time analyzing the CBC's internal environment, and we have a number of observations about



how the CBC can become more flexible, innovative, efficient and cost-effective. Many of these comments are consistent with the conclusions of the CBC's own internal review, which took place at the same time.

As a result of the CBC's review process, the CBC management has announced a number of major initiatives to improve efficiency, cut costs and introduce a more streamlined operating structure.

We believe that these changes, while painful and difficult, represent an important step in modernizing and improving the CBC's internal environment; but we would encourage the CBC to expand its review even more, in order to achieve the following goals:

- Reduce further the CBC's administrative and support activities (and staffing), and reallocate those resources to programming;
- Reduce or replace the CBC's somewhat arcane bureaucratic procedures and processes;
- Reduce the size of the permanent work force (including lifetime employment provisions), and introduce a more flexible mix of staff, contract and freelance employees;
- Increase independent production;
- Introduce more flexible and lower-cost production methods;
- Introduce new production technologies more rapidly;
- Renegotiate union agreements to eliminate a number of outdated restrictions.
- Introduce a "user pay" approach to television production, similar to those that have been introduced at the BBC and ABC in Australia. It would give producers better financial information, greater control over their budgets... and greater freedom to "shop around" for crews and facilities.
- Establish clear "success criteria" for the CBC and introduce the kind of productivity "bench marking" that most corporations use.

The CBC has indicated that it expects to realize \$35 million in annual savings as a result of modernizing its collective agreements. This area is worth further discussion because, as the Auditor General of Canada pointed out in his June 1995 special report on the CBC, “human resource costs, amounting to more than \$700 million annually, are the Corporation’s single largest cost component.”

The Committee agrees with the Auditor General’s assessment of CBC’s collective agreements:

[M]any of the existing provisions do not suit the operational requirements of modern television and radio production and broadcasting, especially in light of the current financially constrained and competitive environment which the Corporation is facing. Many of the collective agreements contain terms and conditions which have not significantly changed over time, even though the operational environment and the technology have changed dramatically. For example, jurisdictional barriers, penalty payments, hours of work provisions, overtime costs, job security and different provisions for employees who may be working together on the same program.

Because of its history of piecemeal certifications and voluntary recognitions, the CBC found itself negotiating and administering 29 collective agreements in the 1980s. The Canada Labour Relations Board recently reduced the number of bargaining units to eight, four for the “French network” (covering the province of Quebec and Moncton) and four for the “English network” (covering all of Canada except Quebec and Moncton). This is an important step forward. In the discussion that follows, we will look at why we believe it is critically important for the CBC’s management and unions to come to new agreements that will enable the Corporation to break free of some of the existing internal constraints.

We are not suggesting that all the changes that are needed in the CBC’s internal environment can be achieved by new collective agreements. Neither do we believe that all the cost savings can or should be achieved by changing provisions of previous collective agreements that were jointly negotiated by management and unions. We strongly support effective union

representation for employees, but we are convinced that in this radically different environment (dominated by severe cutbacks, new broadcasting technology and a multi-channel universe), the CBC and its unions will simply have to find a new way of working together to reduce costs and to guarantee the Corporation's long-term survival.

*Union jurisdiction & contracting-out.* Union jurisdiction barriers are typically of two types. The first type restricts work or tasks to a member of a particular bargaining unit to the exclusion of other CBC employees, unionized or not. The second kind are barriers that seek to ensure that only CBC employees, as opposed to people from outside sources, can perform a given job.

We have provided examples from some arbitration cases – not to be provocative – but because they illustrate problems that can and do recur with restrictive agreements, and because the findings of arbitration cases have significance as long standing precedents for the daily application of collective agreement language. Once established, such an interpretation of a collective agreement becomes part of the working culture in the CBC.

In cases which illustrate the problems arising from restrictive jurisdiction clauses, arbitrators have had to grapple with subtle distinctions between “hard” and “soft” news in order to decide which of two English network unions had jurisdiction to cover particular stories. The time and resources of the CBC and its union representatives have been expended, for example, in lengthy hearings over how to classify reports on the conviction of someone for a previously reported crime, and on the death of a scuba diver which had occurred two days earlier. The first was found to be “soft” news, the second “hard.”

In contracting-out cases, arguments often revolve around whether in-house union crews must be used *regardless of the cost* if the crews are theoretically “available.” In one instance, CBC used a local production company to provide the extra crew and equipment required for the coverage of the opening ceremonies of Expo 86 in Vancouver. Although the arbitrator did not agree that costs were irrelevant under the contracting-out provisions of the agreement, he nonetheless found that the agreement required that the CBC should have flown 20 people to Vancouver from Atlantic Canada for a single day's work.

Jurisdiction clauses have also prevented the CBC from carrying out cost-saving plans where the same work was to be transferred from one bargain-

ing unit to another. There have been arbitration decisions in which the CBC was prohibited from rationalizing its operations by centralizing some sales and accounting functions previously performed in more than one city. The effect was to require CBC to maintain redundant services and to pass up potential savings.

Most CBC collective agreements also restrict the Corporation's ability to engage in contracting-out. Certain provisions prohibit the use of independent producers if it causes any loss of regular hours worked by unit members, or if it reduces the average annual volume of in-house production maintained over a certain number of years. The continuation of such clauses in new collective agreements would create major problems if the CBC were to seek to make greater use of independently produced or co-produced programming.

A number of the CBC's collective agreements contain clauses which increase production costs for even minor changes in production schedules. Examples include requiring a penalty payment where employee meal periods are delayed more than 15 minutes from their scheduled times (which must be fixed not less than two weeks in advance), and the requirement in another agreement that employees telephoned at home must receive one hour's pay, even if the call lasts only one or two minutes.

*Protected-employee status.* A large portion of the CBC's office, clerical, technical and production staff in unionized positions benefit from protected-employee status. As the Auditor General noted, "CBC collective agreements provide more job security than those of the private sector" and "generally, private sector agreements provide more ready access to lay-off plans due to technological changes than do the CBC agreements."

The collective agreements applicable to such employees provide that those who were on staff on December 1, 1981 or December 1, 1983 cannot be laid off or have their salaries reduced except in narrowly defined circumstances. The CBC's resulting obligation to protected employees is to keep them on full salary until retirement age. To date, no significant number of employees have had to be kept under these guarantees, but such a result cannot be ruled out for the future. The large number of "protected" employees, and the severe reductions in the CBC's budget make this an issue of great importance in the CBC's future.

*Multiskilling & the Windsor experiment.* Despite the immense challenge of arriving at new collective agreements, the Committee has seen signs of a new willingness to deal with these complex issues. The “Windsor experiment,” begun in March 1994, is an important step forward, though not without its problems in terms of the special premium costs negotiated with the unions in exchange for job flexibility.

The Corporation closed its Windsor television station in 1991. The “Windsor experiment” allowed the CBC to reopen a news bureau, and involved collaboration between the CBC and two of the major English network unions in overcoming jurisdictional and job classification barriers.

Under the agreement, employees involved in the gathering of news are trained to perform the work of more than one job classification (“multi-skilling”), or to work in experimental positions which involve functions under the jurisdiction of more than one union. An example of a “multi-skilled” job is having an employee act as a reporter while also operating the video camera on a particular story.

The Windsor experiment may well be an important indication of a new approach to collective bargaining at the Corporation, particularly in terms of the broadening of job descriptions and more flexible concepts of union jurisdiction. And it’s resulted in re-establishing a major public service for the people of Windsor – a successful local newscast is back on the air, and it is being produced with significantly fewer staff.

#### **RECOMMENDATION:**

**The CBC management and unions should modernize their collective agreements by: eliminating jurisdictional inflexibility, introducing broader job descriptions, allowing more flexible production methods and renegotiating the “protected-employee status” granted to some staff.**

### **5.3 LEGISLATIVE AMENDMENTS**

**A**s we indicated in the Preface, we took an expansive view of the term “mandate.” In our view, the CBC’s full mandate is defined and shaped by a large



number of decisions, policies and practices put in place by a variety of bodies including the CRTC, the Treasury Board and a number of other agencies.

The legal mandate of the CBC is set out in the *Broadcasting Act*. It is the most modern legal mandate of the three organizations under review – having been implemented in 1991. In the course of our consultations, we did not hear calls for major amendments to these legislative provisions. There has been, however, some discussion of the CBC's regional role – particularly about whether the CBC could afford to maintain these services. We have discussed this issue at some length in the radio and television sections and we do not propose any changes to the wording of the Act in this regard.

We have reviewed the rest of the mandate provisions in the Act and we find them sound. There are a small number of changes to the legal mandate that we propose, but they are in the nature of clarifications and cleaning up of loose ends. These changes need not precede the other important changes we propose elsewhere in this chapter.

## ROLE IN NEW MEDIA

The *Broadcasting Act* states that “the CBC should provide radio and television services.” A concern has been expressed that if the Act is read restrictively, this wording could limit the CBC's ability to reach audiences through the emerging new media. The Committee notes that CBC already has a significant presence on the Internet. It obtains listener and viewer feedback, and distributes information of all kinds about the Corporation and its activities, including program schedules, synopses, reviews, speeches, promotional material and so on.

The Committee believes that CBC must be able to experiment with new media, and, over time, assume a leadership role as a content provider in this field.

### **RECOMMENDATION:**

**The Government should review the wording of the *Broadcasting Act* to ensure that it allows CBC to become a content provider in new and emerging media.**

## ALTERNATIVE PROGRAMMING SERVICES

As discussed earlier, we have carefully considered the findings of the Group of Experts on Alternative Programming Services. Our conclusion is that the provisions of the *Broadcasting Act* (sections 3(1)q and r) setting out the mandate for Alternative Programming Services should be deleted from the Act. It seems that the Government had originally intended that new services would be created to complement the programming of the CBC. We think that these clauses are now simply confusing, given that the Government no longer has any intention of proceeding with these Alternative Services.

Given the revised role we propose for the CBC, we believe some of the language describing the proposed Alternative Programming Services could be usefully added to the CBC's legal mandate. For example, provisions could be added to clarify that CBC's programming should "be innovative"; should include programming "for interests and tastes not adequately provided for" and "include programming devoted to culture and the arts."

This change in the legislation is particularly appropriate when we consider the current climate of budgetary restraints. We would argue that if funds became available to improve the range of programming in public broadcasting, they should be allocated to the CBC.

### RECOMMENDATION:

**The Government should delete sections 3(1)(q) and (r) of the *Broadcasting Act*. The Government should add the provisions that CBC programming should "be innovative," "include programming for interests and tastes not adequately provided for," and "include programming devoted to culture and the arts" to the Corporation's mandate.**

## RADIO CANADA INTERNATIONAL

In addition to its domestic radio and television services, the CBC operates an international shortwave radio service – Radio Canada International. Its budget is about \$15 million annually. It broadcasts a minimum of 232 hours a week in English and French as well as six foreign languages: Arabic,

Chinese, Creole, Russian, Spanish and Ukrainian. It directs its service to North and South America, the Caribbean, Europe, Russia, Asia, Africa and the Middle East.

In the current climate of fiscal restraint, the issue for the Committee became: what role should CBC play internationally? And if there is such a role, is shortwave radio still the best way to achieve it?

As we said early on, we are of the view that cultural expression should not be a narrowly based domestic concern. We believe that public institutions have a role to play in interpreting Canada and Canadians to the rest of the world.

We think that there needs to be a coherent international strategy developed by the CBC. In addition to RCI, the CBC is involved in international co-productions, in international program sales, in a joint venture partnership to export television services to the United States (Newsworld International and TRIO), and in distributing radio programming via the Internet.

There are obvious differences in the purposes of these international ventures and in the audiences they reach. For example, there are quantitative and qualitative differences between audiences who own shortwave radio receivers and those who have access to the Internet in many countries around the world.

In December 1990, the CBC Board of Directors indicated that unless alternative funding arrangements were found, the shortwave service would be terminated. The Minister of External Affairs intervened, saying that his Department would assume responsibility for funding RCI. In the February 1995 Budget, the Government stated that the responsibility for funding RCI was being returned to CBC. Six weeks ago, the CBC announced that it would terminate RCI services effective March 31, 1996, in order to concentrate the Corporation's limited resources on its domestic services.

We regret that such a decision had to be taken, particularly before an overall international strategy could be developed and before a new funding formula for the CBC could be considered.



## 6. FINANCING THE NEW CBC

As part of our terms of reference, the Committee was asked to examine whether alternative sources of revenue could be developed to finance a strong CBC in the future. We were also asked to take two other significant issues into account when making our recommendations – the dramatic changes that have occurred in the communications environment... and the government's budgetary restraint program.

These considerations became an important part of our discussions across the country, and over the past few months, a critically important part of our thinking about the CBC.

As we have indicated throughout this chapter, the Committee is proposing a very different CBC, particularly in the case of television. We do not believe that the status quo is a viable option. We have also become convinced that the present system of financing the CBC (through annual Parliamentary appropriations and advertising) is increasingly unstable as a source of revenue, and in the case of advertising, distorts the Corporation's public service mandate.

It may be useful, therefore to review our reasoning... before we discuss the CBC's financial history, its financial requirements over the next few years, and our alternative approach to financing those requirements:



- Canada needs a vibrant and distinctive national public broadcaster – to enable us to communicate with one another across this vast land; and to provide a Canadian alternative to the flow of American television and film coming across the border;
- To do its job effectively over the next decade, the CBC needs stable, predictable, long-term funding;
- Over the past decade, the CBC's Parliamentary appropriation has not kept up with the cost of living, and CBC's funding has been reduced by 23% in constant dollars;
- Over the next two years, the CBC Parliamentary appropriation is likely to be reduced by \$265 million (resulting from cuts introduced by the previous and the current Minister of Finance);
- The CBC's increasing dependence on advertising revenue (in part to offset the reductions in Parliamentary funding) has caused its television services to become more commercial and competitive, and has compromised their ability to deliver a distinctive, high quality program service;
- The CBC will find it increasingly difficult, in any case, to sustain its current level of advertising revenue in the future – given a 60 channel viewing universe... and more and more audience fragmentation;

Our analysis leads us to two basic conclusions: the continuation of the status quo will ultimately result in the demise of the CBC; and the rejuvenated CBC that we propose will have to be financed in a fundamentally different way to be viable and effective.

We recognize that our recommendation for developing a new CBC funding mechanism represents a dramatic departure from the past, but we are convinced that it is the only available option for rebuilding and strengthening one of Canada's most important institutions.

## 6.1 A FINANCIAL RETROSPECTIVE

**B**efore we outline our recommended approach, we want to provide a brief – but more detailed – history of the CBC's finances over the past 10 years.

Any CBC financial retrospective has to begin with a review of the CBC's Parliamentary appropriations – the money voted each year by the House of Commons.

During the period between 1984-85 and 1994-95, the CBC's annual appropriations grew by almost 18% in real dollars, reaching \$951 million last year. Federal Government spending, by way of contrast, went up by 38.3% during the same period.

But in constant dollars, the CBC's Parliamentary appropriation story was quite different. While CBC funding was going up by 18%, the Consumer Price Index (measuring the impact of inflation) went up by more than twice as much – 41% – meaning that the CBC's actual purchasing power declined by about 23%. This is the equivalent of almost \$190 million in indirect cuts since 1984-85.

While CBC's management dealt with this steady decline in a variety of ways, one response tended to dominate the agenda – the aggressive pursuit of advertising revenue to maintain the Corporation's overall funding levels. In the short term, it turned out to be a great financial success. Between 1984-85 and 1989-90, CBC's advertising revenue grew by 64%, and it peaked two years later at \$313 million. The CBC's commercial revenue strategy allowed the CBC to maintain its funding base, to Canadianize more of the prime time television schedules, and to protect the quality of its radio programming.

But it also came with a heavy price tag: the CBC's English and French television networks became increasingly commercialized and competitive; they shifted their programming orientation to reach a broader audience; and they began to lose much of their distinctiveness and quality.

By 1990, the CBC's aggressive commercial posture also began to have a noticeable impact on private broadcasting revenues, and the federal government appointed a task force to study the situation. This study on the economic status of Canadian television, also known as the Girard-Peters Task Force, recommended that the CBC “should receive adequate, ongoing and stable public funding” to enable the Corporation to concentrate more on its traditional public service role... and less on its commercial activities. They advocated multi-year funding for the CBC, arguing that it would allow the Corporation to plan and manage its operations more effectively.

In the next few years, however, the CBC's financial situation took a significant turn for the worse. The recession of the early 1990s, the increased competition in television, and the resulting audience fragmentation caused CBC advertising revenue to level off; and by 1994-95, its commercial revenue had dropped back to \$297 million.

As we argued earlier, it was clear by the end of the 1994-95 season that the CBC's more ambitious commercial strategy was not going to solve the problem – advertising would not generate enough incremental revenue to offset the substantial (constant dollar) decline in the CBC's Parliamentary appropriation.

Over the past five years, as a result, the Corporation has been forced to take a number of difficult and painful initiatives to deal with its increasingly claustrophobic financial situation. They involved a combination of staff layoffs, program cuts, and station closures... all designed to reduce expenditures exponentially. Other approaches such as "pension contribution holidays" and one-time government payments for CBC downsizing measures were also used to cushion the blow.

The CBC's financial dilemma came to a head over the past two and a half years when first Finance Minister Don Mazankowski and then Finance Minister Paul Martin (as part of the federal government's budget restraint program) announced reductions in the CBC's Parliamentary appropriation that are likely to reach a combined \$265 million – a planned reduction of more than 28% of the CBC's government funding.

The CBC was now trapped in a full-fledged financial crisis.

## 6.2 THE MOMENT OF TRUTH

**A**fter giving the matter a great deal of thought, we have reached the conclusion that unless the present course of action is changed and a new strategy developed, the very future of the CBC is now at stake.

We are not the only ones who have reached this conclusion. Most of the people we spoke to across the country expressed the same concern.

The problem can be summarized as follows:

*First*, the CBC has responded to last year's cut in its annual appropriation by announcing a \$227 million budget reduction for the current and the next fiscal year. The CBC plans to achieve these reductions primarily through improved efficiency and by savings resulting from new collective agreements with staff unions.

The CBC has stated, as well, that these reductions will have only a limited impact on its radio and television programming. After discussions with the CBC, the Committee believes that it will be difficult for the CBC to reach even the \$227 million figure *without a substantial program impact*, particularly if the contract negotiations with the unions do not produce all of the expected results.

The CBC is also facing significant additional expenditures to finance the severance cost of staff layoffs, and we have been told that the CBC is seeking government assistance to offset these one-time costs. The Government has not confirmed that it will finance all of these expenditures.

*Second*, the CBC's Board is operating on the assumption that it will have to reduce its spending by another \$123 million to balance its budget in 1997-98. The \$227 million mentioned above and this \$123 million make up the \$350 million "shortfall" that the CBC announced last fall.

The Board has acknowledged that it will not be able to find the \$123 million in savings without deep (and damaging) cuts to its radio and television services. **As a result, the Board and the CBC's President have indicated to the Committee that they will proceed with these further reductions only after they have received guidance and direction from the government.**

*Third*, the CBC is considering another increase in its television advertising activities to partially compensate for these government funding cuts. It is expected that the CBC will expand its advertising in the 10 - 11 pm news and current affairs period on the English and French networks – the most lucrative time period available. This would be regrettable, and would mean that the tensions and contradictions between the CBC's public broadcasting mandate and its pursuit of commercial revenue will inevitably increase. The CBC will begin to look even more like its commercial competitors, and will find it more difficult to justify even a reduced annual subsidy.

*Fourth*, the private broadcasters will express even stronger concerns that the CBC is competing unfairly with them... and that the CBC is no longer a public broadcaster – that it is more and more *a subsidized commercial broadcaster*.

*Fifth*, nothing will have been resolved – the CBC will still be dependent on declining annual appropriations and on uncertain advertising revenues. And the CBC will still not have the stable funding system in place that it needs for rational, multi-year planning.

*Sixth*, the success of CBC radio can no longer be taken for granted. The quality of the radio services will inevitably deteriorate as funding is cut back.

And finally, it is abundantly clear that this *will not lead to a stronger CBC*.

In other words, the CBC and the Federal Government are facing a moment of truth. One course of action leads to gradual decline... and ultimately we fear, to the demise of the CBC. The other course of action is complex and politically difficult, but we believe it could re-establish the CBC's stature and effectiveness as our national public broadcaster

### 6.3 THE ACTION PLAN FOR TRANSFORMING THE CBC

We have developed our design for a new CBC at some length in this report. We now want to provide the financial ingredients, so that we can establish the funding levels that we believe the CBC will require in the future. We envisage a smaller and more focused organization, with annual budgets in the range of \$1.3 billion... compared to CBC's 1994-95 budget of more than \$1.5 billion.

Our proposal, however, includes a number of transitional costs, as well as a range of economies. The costs include:

- The elimination of most of the advertising on CBC's main television networks, on Newsworld and on RDI;
- The development of a new relationship with CBC's affiliates;



- The need for overall program improvements;
- The elimination of the cable subscription fee for Newsworld and RDI.

#### ELIMINATION OF ADVERTISING

Starting in 1997-98, we propose that the CBC begin the process of phasing out of commercial advertising. Recognizing the distinct characteristics of both the English and French language markets, we propose to do this over a four year transition period. The phasing out period will be complete by the year 2001, leaving the CBC with about \$90 million from advertising in sports. We estimate that the loss in revenue will be between \$200 million and \$250 million a year. The higher number is based on the CBC sales department's revenue projections for the year 2000-2001, which we find somewhat speculative.

#### RELATIONSHIP WITH AFFILIATES

Eliminating most of the commercial advertising will have a major impact on the CBC's relations with its private affiliates. The CBC will have to work out new arrangements with these affiliates, keeping in mind that there is no single formula that will be satisfactory to all of them. This negotiation process will take time and some of the affiliates may choose to disaffiliate. While the financial implications cannot be predicted with absolute certainty, the Committee did give this question careful attention, and described various options earlier in this chapter.

The first option, replacing all of the present affiliates with CBC transmitters, would involve about \$57 million in one-time capital costs and about \$3 million a year in operating costs. This would eliminate the need for the CBC to make its annual affiliate payments of about \$15 million, resulting in a net saving of \$12 million a year.

Under the second option, the CBC would maintain its relationship with the affiliates, but would ask them to carry the full, non-commercial program schedules of either the English or French networks. The CBC would have to compensate the remaining affiliates for their loss of advertising revenue, and

we have estimated this option at \$70 million per year, resulting in a net increase of \$55 million.

The third option would involve the affiliates agreeing to carry the full *prime time* schedule on a commercial-free basis. The affiliates would be able to sell commercial advertising between 4 pm and 7:30 pm. In any case, the Committee believes that a prime time period from 7:30 pm to 11 pm must be commercial free – and the full network service be available – regardless of whether viewers get their service from a CBC owned and operated station or from a private affiliate. Even though this option would be somewhat more appealing to the affiliates, the CBC would still be required to provide compensation for loss of revenue. We have estimated the additional cost to be in the range of \$25 million per year, beginning on a phased basis in 1997-98.

The last option, which is reflected in the accompanying financial tables, is certainly not ideal but the CBC's present relationship with its affiliates is the result of some 40 years of history. It cannot be resolved quickly or without a significant cost. But one thing is clear – the status quo would not be acceptable.

#### PROGRAM IMPROVEMENTS

The Committee has written at some length about the need to strengthen the CBC's program services on both radio and television. We have estimated \$35 million would be needed for these improvements in 1997-98; \$70 million per year for the following three years; and \$100 million per year after that for the program changes we describe earlier in this chapter.

#### NEWSWORLD AND RDI

We are also recommending (if the new funding plan is accepted) that the cable subscriber fees for Newsworld and RDI be eliminated, along with the gradual elimination of advertising on the two services. The cost of this recommendation is about \$70 million.

## ECONOMIES: CONTINUOUS EFFICIENCY IMPROVEMENT

While we commend the far-reaching initiatives recently taken by CBC's Board to reduce costs through efficiency savings, the Committee feels strongly that the CBC should continue to place great emphasis on productivity and efficiency; and that the Corporation must continue to be preoccupied with providing "value for taxpayer's money" in all of its activities.

With that in mind, we would recommend that the CBC introduce a program of continuous efficiency improvement, with a 2% target per year, starting in 1997-98. The 2% efficiency gain per year would be calculated on the total expenditure base of the Corporation. This program would be designed to generate permanent savings of about \$30 million a year, for a total of \$150 million by the end of the fifth year. These savings should result from greater productivity and not from service reductions.

As part of this initiative, we would propose that the Government allow the CBC to defer the last part of its planned cutback (the \$123 million) and agree to let the CBC substitute the reductions from the first five years of the efficiency program. It would achieve all of the savings asked for by the Government, but would occur in a more orderly and far less threatening way.

Moreover, by achieving these reductions over a five year period, about \$65 million in downsizing costs that would have resulted from all of the layoffs happening at once would be avoided.

We would recommend that any efficiency improvements in excess of the 2% per year in the first five years should be retained by the CBC. After the initial five year period, we would argue that the CBC should be allowed to retain all of the incremental efficiency savings to improve programs.

Many large and successful companies around the world have introduced such programs, and embraced the managerial philosophy and commitment that go with them. The Corporation's adoption of such a program would reinforce a "cultural" shift in the way that CBC manages its resources at all levels of the organization.

## OTHER POTENTIAL SOURCES OF EARNED REVENUE

The Committee has also looked at the growth potential of other CBC sources of earned revenue, and has reviewed these with the Corporation. They include increased revenues from international program sales, the re-use of programs, the introduction of new specialty services, renting out or leasing existing CBC facilities, and the sale of surplus assets. The CBC currently generates about \$45 million annually from non-advertising sources, and we do not believe that there is the potential for *significant* increases in this area.

We would recommend, however, that the CBC continue to pursue these non-advertising sources of revenue vigorously... in order to supplement the Corporation's overall income.

## SUMMARY

When the cost saving measures already announced by the CBC are combined with the Committee's recommendations, the CBC's total funding requirements would drop from about \$1.5 billion in 1994-95 to about \$1.265 billion in 1997-98 – a reduction of almost 16%. Thereafter, we would recommend that the increase in the CBC's total funding requirements be limited to about 1% a year. *That would result in a CBC budget that averages about \$1.3 billion a year over the next seven years.*

## 6.4 TOWARDS A RATIONAL FUNDING SYSTEM

In developing our recommendations for an alternative funding system for the CBC, we spent a great deal of time examining the way other public broadcasters around the world are financed. We discovered that relatively few of the major public broadcasters rely on the combination of government appropriation and commercial revenue for the bulk of their income.

The BBC, for example, is non-commercial, and is funded almost entirely by a licence fee (on radio and television sets). NHK and SVT in Sweden are funded predominantly through different kinds of licence fees. PBS, which is also non-commercial, is primarily funded through a combination of Congressional appropriation and direct financial contributions from its viewers.

A 1993 survey of public broadcasting funding, conducted by the well known American management consulting firm, McKinsey and Company, reached a number of fascinating conclusions:

- Public broadcaster dependence on advertising revenues creates a conflict of interest that prevents them from meeting public service obligations;
- The reliance on voluntary donations does not generate enough money to support a broadly based, public service broadcaster;
- Direct government funding has resulted in an annual budget squeeze for those public broadcasters who rely on it (particularly in the 1990s), and has led to declining program standards;
- Licence fee funding, although it tends to vary a good deal from country to country, has the fewest disadvantages for public broadcasters.

As we have indicated throughout this chapter, we tend to share McKinsey's assessment; and as a result, we have adopted the following criteria for an alternative funding system:

- (a) the system should provide for stable, predictable, multi-year funding;
- (b) it should provide sufficient revenue to support significant public radio and television services in English and French, which are strongly Canadian, distinctive, publicly owned, and deeply rooted in the regions of Canada.
- (c) it must be compatible with the present budgetary policies of the Federal Government, and include a built-in productivity factor;
- (d) it must be largely independent of advertising revenue; and
- (e) it must not be dependent on an *annual* subsidy or appropriation from Parliament.

In arriving at those criteria, the Committee has considered the recommendations of various royal commissions and fact finding committees over several decades, who have commented on the inadequacy of the CBC's present



funding system... and who have recommended approaches more consistent with the needs of a public service broadcaster.

We have also taken into account the often stated government intention (and the number of failed attempts) to establish a multi-year financing system for the CBC, based on annual appropriations. It now seems clear that such a system cannot work.

As a result, we began the process of looking at a number of *other ways* to finance the CBC that met the criteria set out above.

#### THE OPTIONS CONSIDERED BY THE COMMITTEE

In looking at a range of alternative funding possibilities, the Committee carefully considered the various policy proposals that have been put forward over the years. It would have been unrealistic, however, for the Committee to attempt to deal with such complex issues without expert advice. We therefore retained the specialized expertise of Ernst & Young to guide us in this work.

The Committee also looked at a number of technical studies that have already been carried out by government officials, and related studies done by private sector experts in fiscal and tax matters.

We began by reviewing some of the most effective funding systems in other countries. As we mentioned earlier, a number of public broadcasters are funded on a multi-year basis through the use of a "licence fee." Each household with a radio or television set pays an annual fee which is applied to the funding of their national public broadcaster. In effect, households that have access to public broadcasting services are required to contribute directly to their financing. While the Committee agrees with this approach in principle (and while it was once used in Canada), we do not think a similar system is now workable in Canada. The cost of setting it up and the ongoing administration and compliance costs are likely to be prohibitive.

The options considered by the Committee and its team of expert advisers ranged all the way from measures that were variations on a licence fee (such as an excise tax on new purchases of radios and television sets) to a dedicated income tax provision. The options were evaluated on their suitability for

the CBC (whether it was likely to generate enough revenue at a reasonable tax rate)... and also from a broader, public policy perspective. Clearly, any levy or tax had to be relatively easy to administer, and have a fairly straightforward compliance mechanism. It also had to avoid placing an unfair tax burden on individual households or businesses.

Three of the options we considered are described below:

*Option 1.* As an example of the approaches we considered, the Committee reviewed whether it would be possible to collect dedicated revenues nationally, without having to establish a new agency to collect “licence fees.” The income tax administration and collection system operated by Revenue Canada, we concluded, could provide a potential way of collecting an annual fee from all Canadians to support the new CBC. The income tax system is a national one, and a dedicated fee imposed as part of income tax collection would be far less expensive than any new, stand-alone system.

Such an income-tax based licence fee could also be structured in a wide variety of ways. It could, for example, be applied at a specific rate on taxable income up to a maximum level. It could also be levied as a fixed amount for people with a taxable income above a designated minimum level. The advantages of this type of system would include: universality, a relatively low administration and compliance cost, and its ability to raise the required level of funding at a low tax rate (less than \$8 a month per taxpayer).

While such a broadly based fee has obvious attractions because it retains some of the characteristics of the licence fee systems operating in Europe, we concluded that it was unlikely to be an acceptable mechanism to finance the CBC. All of the advice we received suggested that the designation of a general tax for a specific spending purpose would represent a difficult precedent from a tax policy point of view.

*Option 2.* As a second option, the Committee considered the introduction of a levy on all of the companies who are distributors of electronic communications. We took particular note of the fact that the House of Commons Standing Committee on Canadian Heritage; the Grant Report; the Report of the Working Group on Canadian Programming and Private Television; and the Report of the Information Highway Advisory Council have all recently advocated the concept of a levy on distribution systems to finance Canadian programming. Such a levy would build on a long standing tradition in

Canadian broadcasting policy that has required the cable sector to provide some level of support to both broadcasters and independent production, in a number of different ways.

This option of a tax on communications distribution systems has a precedent in Canada prior to the introduction of the GST. From 1984 to 1990, all Canadian residential and business customers paid a tax on their cable and telephone bills which reached 11% in 1990. A form of excise tax, these levies were called the Telecommunications Services Tax (TST), and the Telecommunications Program Services Tax (TPST). The TST excluded charges for local residential telephone services.

The Telecommunications Program Services Tax ended up playing a significant role in the development of the independent production sector – part of the proceeds from the tax were subsequently used to create the highly successful Broadcast Fund at Telefilm Canada.

We have been advised that these taxes functioned effectively, and did not have an adverse effect on either the telephone or the cable industry – in market share, growth or profitability. It is also interesting to note that the relative price of these services fell during this period, to provide some degree of cushion for consumers.

If such tax was reintroduced today, it would have to be broadened to include satellite companies and other service providers. We would argue that rapidly converging technologies require that direct to home satellite services and telephone service providers should be expected to support Canadian content programming in the same way as cable has. The Government has already signalled its determination to extend a similar Canadian content funding obligation (a percentage of gross revenues invested in content) to the first generation of cable competitors – the direct to home satellite services.

And the prospect of local competition between the cable and telephone industries recently announced by the CRTC and the Minister of Industry suggests that similar requirements should be placed on the new telephone entrants. We support that general principle.

The Committee notes that a recent report on the economic structure of the Audio Visual Industry (the Goldstein Report in 1994) indicated that the relative rate of investment in programming by the cable industry is quite low

compared to the broadcasting industry. That is an important point to remember, given the fact that the cable industry has grown enormously over the past two decades by selling the idea that it offers a wide range of program choice. In other words, most people subscribe to cable for the *content it offers...* and we believe the same will be the case for DTH satellite services and for the telephone companies when they become active competitors in the field.

With that in mind, the Committee believes that the recent promise by the telephone industry to invest \$50 million a year in educational software (through a company called Media Linx) is a useful first step. But given the telephone companies' projected investment of \$8.5 billion over the next ten years to upgrade the capacity of wired and wireless networks to carry higher speed digital signals, the \$50 million in programming investment seems to us quite modest.

Canada has developed one of the world's most sophisticated and elaborate electronic distribution systems. As we have seen, the cable, DTH and telecommunication industries continue to make huge investments in improving that infrastructure. We are concerned, as a result, that there will be an even greater imbalance between the resources invested in Canadian distribution systems and the resources available to create the Canadian content carried on those systems. **New or improved distribution systems will not by themselves lead to the creation of Canadian programming.**

This relatively broad definition of the communications services that would be included in the proposed tax base has several advantages. A broad base keeps the tax rate within an acceptable range. It recognizes the phenomenon of converging technologies, and the fact that enormous investments are being made by many potential broadcast service delivery systems. A tax that was limited to only the current signal providers would unduly handicap them in developing their systems for the future, particularly since it now seems that a broader range of competition is inevitable.

As a consequence, this option would involve a levy on all distributors of electronic communications – the Communications Distribution Tax (CDT). It would apply to cable, direct to home satellite companies, and other telecommunications services such as telephone companies. It could exclude, however, local residential telephone services.

We also want to address the important additional issue of why such a levy would be earmarked for the CBC. Many of the advisory groups that we have just referred to recommended that a communications levy of this kind should go into a new fund for independent production. Some proposed a model similar to Telefilm or the cable production fund, which are discussed in other parts of our report.

While we support the idea of additional money going into independent production, we think it makes more sense to dedicate the levy to the CBC:

- The CBC continues to be by far the largest single provider of Canadian programming and generates most of the viewing time devoted to Canadian programming. We believe that its needs must be met first;
- The CBC is the largest single broadcasting investor in independent production, and our recommendations would lead to a significant increase in the levels of CBC investment;
- The future of the independent production industry and the CBC are inextricably linked. The production industry needs a strong CBC to help it expand and flourish;
- Our recommendation to eliminate most of the CBC's commercial activities will mean that much of that advertising revenue will flow to private broadcasters. They will be expected to increase their commitment to independent production dramatically;
- To summarize, the Committee feels that the needs of the CBC, the independent production industry and private broadcasting will be better met by earmarking this proposed levy for the CBC.

*Option 3.* In Option 2, it was assumed that the Communications Distribution Tax would be added on top of the GST. Under Option 3, we would ask the Minister of Finance to consider modifications in the level of the GST as a consequence of a proposed Communications Distribution Tax. In other words, the GST could be zero-rated or combined with the Communications Distribution Tax to reduce the impact on the communi-



cations industry and on consumers. We are aware that this raises a number of complex fiscal and tax issues, and we think that they are best left to the government to evaluate.

#### **RECOMMENDATION:**

**While the Committee could support all of the alternative funding systems that are described in options 1, 2 and 3, the Committee recommends the introduction of a Communications Distribution Tax (CDT) to provide the CBC with stable, predictable long-term funding.**

#### TAX RATES AND REVENUES

Our tax advisors have indicated that a communications distribution levy would raise about \$140 million of revenue for each percentage point of taxation, if it excluded local residential telephone services.

We have calculated that it would require a 7.5% tax rate on communication distribution services in order to fully fund the CBC that we propose. An extra percentage point of tax would be required to replace the CBC's capital appropriation. If there is no modification to the GST, the effective level of federal tax on distribution services to consumers would be 14.5% (15.5% including capital). This would be a combination of the GST and the proposed Communications Distribution Tax (CDT).

Since businesses can recover the GST on their "inputs," their effective rate of tax would be 7.5% (or 8.5% including capital), somewhat less than when a similar tax was applied in the past.

To cushion the introduction of the levy somewhat for consumers, we would recommend that Newsworld and RDI drop their monthly subscriber fees. Cable subscriber fees for Newsworld are currently \$0.55 a month in English-speaking Canada and \$0.15 a month in French-speaking Canada. The subscriber fee for RDI is \$0.90 in French speaking Canada and \$0.10 in the rest of the country. The change would have a number of financial, contractual and regulatory implications.

## REPLACING THE ANNUAL APPROPRIATION

Under our proposal, the annual Parliamentary appropriation for the CBC would be replaced by revenues from the Communications Distribution Tax. It would free up more than \$800 million (based on the 1996-97 appropriation level) that the government has been planning to provide to the CBC. These funds could be used by the government for further deficit reduction, an offsetting tax reduction, or for high priority spending initiatives.

While the CDT would become the principal source of funding for the CBC, the issue of how these tax revenues would flow to the CBC remains to be resolved. We would propose that it be achieved through a statutory appropriation provision in the *Broadcasting Act*. This statutory appropriation provision would make it possible for the tax revenues to be transferred from the government's Consolidated Revenue Fund to the CBC on an annual basis. It would also specify that the statutory provision would extend for a renewable seven year period.

There are, it appears, many precedents for such a statutory appropriation provision, including, most notably, the Old Age Security program. The statutory provision would in no way restrict Parliament's authority to change the level of funding going to the CBC, but it would remove the requirement for Parliament to appropriate funds every year.

The statutory appropriation provision for the CBC funding would likely be formula-based. In other words, it would not simply set out specific dollar amounts year by year. The advantage of a formula-based approach is that it has the built-in flexibility to allow for changes in the CBC's operating environment, such as inflation. Although any statutory appropriation would have to be based on a specific dollar amount in the first year of funding, the formula would then automatically adjust the funding levels year by year for specific factors such as inflation levels. Given the lengthy transition process that we have proposed, we have not attempted to develop a formula in this report.

## 6.5 IMPLEMENTATION AND PHASE-IN PERIOD

The Committee would recommend that these proposals be phased in over a five year period, starting in 1996-97. This year would be the year of decision for the government.

It would also be a pivotal year for the CBC. During the course of 1996-97, the CBC would implement the cuts it announced last November, and begin preparing for the transition that would take place over the following four years.

The emergence of the new CBC should become gradually apparent to viewers in 1997-98 as the phase out of advertising begins and as a number of new program initiatives are introduced.

The government would have several options for phasing in the new Communications Distribution Tax. It could introduce the tax in 1997-98 at the full rate, or, as we would recommend, at a lower rate in 1997-98. It would then be increased over the next three years as the Committee's recommendations are fully implemented.

The system we propose would not only enable the CBC to plan its activities more effectively, but it would also emphasize the "arm's length" relationship between the CBC and the government. We believe that this is a desirable aspect of the proposal.

The question that arises, however, is how to reconcile the arm's length relationship with the need for accountability?

We believe that the measures that we are proposing would greatly strengthen the CBC's current accountability processes:

- The new statutory appropriation provision in the Broadcasting Act – based on a renewable seven year period – would require that the CBC present a seven year corporate plan to Parliament;
- At the end of the seven year period, Parliament would evaluate the performance of the CBC in relation to its mandate, and review the level of funding in the statutory appropriation provision;
- The CRTC would schedule its CBC licence renewal hearings so that they preceded Parliament's review of the statutory appropriation provision;
- The Standing Committee of Parliament would be able to assess the CRTC's conclusions before considering a bill to amend or confirm the

statutory appropriation legislation. The CBC's annual appearance before the Standing Committee would be maintained;

- The Standing Committee would also be able to consider the results of the Auditor General's Annual Audit of the CBC, as well as the comprehensive audit the Auditor General must conduct every five years.

The *Broadcasting Act* would, of course, remain the basic charter of the CBC.

We have referred in this section to a number of figures representing changes in revenues and expenditures for the CBC over the coming years. In order to help the overall understanding of this transition, we thought a table could be useful. (Table 1)

Moreover, at the end of this section, we provide a more detailed overview of CBC finances from 1984-85 to 1994-95, and projections for revenues and expenditures between 1995-96 and 2000-01. We also offer detailed estimates of the financial impacts of our recommendations.

## 6.6 CONCLUSIONS

Throughout this chapter, we have used the phrase *a new CBC*, and in this section, we have referred to *a new financing system*. We want to emphasize the two notions are inseparable. A new financing system for the existing CBC would not be defensible, and we could not have supported such a proposition. There are too many aspects of the current CBC that must change. This became particularly clear when so many of the traditional advocates of public broadcasting whom we met (or whose letters we received) were completely distressed about the present state of affairs.

Conversely, a new and rejuvenated CBC – without a new financing system – is, in our view, impossible.

We must state again that our *main* concern is with the English and French television networks. Their potential as public services is enormous as we have tried to demonstrate. But the status quo represents very little hope, and poses innumerable problems for the CBC, the public and the Government of Canada.

Table 1

**MANDATE REVIEW COMMITTEE RECOMMENDATIONS - CANADIAN BROADCASTING CORPORATION**  
**Proposed Financing for the New CBC**

	Decision / Transition Year	1	2	3	4	5	6	7
	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
REVENUES								
1	Parliamentary Appropriations	855	556	357	124	0	0	0
2	Special appropriation required	49	0	0	0	0	0	0
3	Advertising	314	239	171	128	93	95	99
4	Newsworld & RDI subscription fees & advertising	75	0	0	0	0	0	0
5	Miscellaneous revenue	42	48	52	54	55	61	64
6	Alternative source of revenue	—	420	700	980	1,144	1,170	1,183
7	TOTAL	1,335	1,263	1,280	1,286	1,292	1,310	1,346
EXPENSES								
8	Planning Base	1,286	1,258*	1,270	1,306	1,342	1,378	1,396
9	Downsizing costs	49	0	0	0	0	0	0
10	Programming improvements	0	35	70	70	70	100	100
11	Efficiency improvement program	0	(30)	(60)	(90)	(120)	(150)	(150)
12	TOTAL	1,335	1,263	1,280	1,286	1,292	1,310	1,346
13	SURPLUS / SHORTFALL	0	0	0	0	0	0	0

\* Assumes no further short term cut beyond the announced \$227 million reduction to be implemented by 1996-97.

## EXPLANATORY NOTES

1. Parliamentary appropriations would be progressively eliminated by 2000-01.
2. Special appropriation required to cover downsizing costs at line 9 of table.
3. Advertising (except in sports) would progressively be eliminated by 2000-01.
4. Cable subscription fees and advertising would be eliminated from 1997-1998.
5. Miscellaneous revenues such as rental of facilities, sales of programs, etc.
6. The alternative source of revenue would be fully phased in by 2000-01.
8. Planning base reflects CBC cost after cuts announced in November 1995 and before new initiatives.
9. See note 2.
10. Gradual programming improvements recommended by MRC for the period.
11. Efficiency improvement program is for a five year period generating a permanent reduction of \$150M by 2001-02.
12. The cost of the CBC in 2003-04 would be approximately the same in nominal dollars as in 1996-97.
13. The CBC must have a balanced budget.



We have acknowledged that the funding proposal that we recommend is complex and politically difficult. It does, however, provide a significant number of important benefits which we want to spell out clearly:

1. It provides the CBC with stable, predictable, multi-year funding.
2. It eliminates the annual Parliamentary appropriation, and it means that more than \$800 million (the planned 1996-97 appropriation level) could be reallocated by the Government for other priorities.
3. It achieves the expenditure reductions that had previously been assigned to the CBC in the Government's Program Review.
4. It lowers the CBC's downsizing costs significantly, by phasing staff reductions over a longer period of time.
5. It introduces a continuous CBC efficiency improvement program.
6. It frees between \$200 million and \$250 million of advertising – most of which will flow to private broadcasters, and enable them to improve the quantity and quality of their Canadian programming.
7. It benefits the independent production industry, by providing both the CBC and private television with additional program resources to invest in independent production.
8. Finally, and above all, it improves the program services of the CBC... and re-establishes the stature and uniqueness of a *strong CBC*:
  - that will be *Canadian* in its spirit and its programming.
  - that will be *distinctive*, by emphasizing culture, enlightenment, education, information and the best of Canadian entertainment.
  - that will be dedicated to *public service*, and no longer motivated by the need to pursue commercial revenue by "beating" the competition.
  - that will be *deeply rooted in the regions* of Canada, and speak authentically in our two official languages.

- that will become *indispensable* to all of us as citizens of this country.

If our proposals and recommendations are supported by Parliament and the federal government, they will present an enormous challenge for the Board, the President, the management and the staff of CBC, and it will take several years before the transformation process is complete. We hope they will be given the opportunity and we wish them well.

Our hope, finally, is that the new CBC will once again become an important part of all our lives, from East to West, across distances, languages and cultures; and that it will make an indispensable contribution to the future of this country.

In summary, the Committee's recommendations from this section are the following:

**RECOMMENDATION:**

**The Government should introduce a new multi-year funding system for the CBC to replace the existing system of annual Parliamentary appropriations starting in 1997-98.**

**RECOMMENDATION:**

**Beginning in 1997-98, the CBC should introduce a continuous efficiency improvement program of 2% per year.**

**RECOMMENDATION:**

**While the Committee could support all of the alternative funding systems that are described in options 1, 2 and 3, the Committee recommends the introduction of a Communications Distribution Tax (CDT) to provide the CBC with stable, predictable long-term funding.**

**RECOMMENDATION:**

The new funding system for the CBC should be implemented through a statutory appropriation provision in the Broadcasting Act, which would be reviewed every seven years.

# 6.7 OVERVIEW OF CBC FINANCES

## HISTORICAL FINANCIAL INFORMATION AND CURRENT CBC FORECASTS, FISCAL YEARS ENDING MARCH 31, 1985 TO 2001

(Millions \$ - non-cumulative basis)

		ACTUAL DOLLARS										PROJECTED ACTUAL DOLLARS									
		1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01			
REVENUES												CBC FORECASTS									
Parliamentary Appropriations																					
1	• Base operating vote (excluding capital)	809	790	783	792	810	849	910	901	918	946	948	962	960	959	959	960	959			
2	• Other							75		41	9	3	56	42							
3	• April 1993 Federal Budget reductions (reprofiled)												0	-50	-100	-100	-100	-100			
4	• 1995/96 Fiscal Program Review reduction												-44	-44	-44	-44	-44	-44			
5	• Proposed Program Review reductions												0	-53	-121	-121	-121	-121			
6	Sub-Total Parliamentary	809	790	783	792	810	849	985	901	959	955	951	974	855	694	694	695	694			
Other Operating Revenues																					
7	• Advertising, net	182	187	205	255	285	299	297	313	298	290	297	305	314	320	331	344	357			
8	• Newsworld incremental revenue						14	26	28	32	46	51	48	49	50	51	52	53			
9	• RDI incremental revenue											6	25	26	27	28	30	31			
10	• Miscellaneous	16	22	27	30	33	40	40	36	43	38	57	45	42	48	52	54	55			
11	Sub-total Other Operating Revenues	198	209	232	285	318	353	363	377	373	374	411	423	431	445	462	480	496			
12	TOTAL REVENUES	1,007	999	1,015	1,077	1,128	1,202	1,348	1,278	1,332	1,329	1,362	1,397	1,286	1,139	1,156	1,175	1,190			
EXPENDITURES																					
Core Expenditures																					
13	• All services (TV, radio, corporate mgmt., eng.)	1,031	974	1,008	1,058	1,128	1,191	1,214	1,253	1,297	1,355	1,355	1,453	1,413	1,421	1,430	1,436	1,441			
14	• Specialty services	17	16	17	19	19	34	51	32	33	47	63	79	90	91	93	96	98			
15	• Selling, merchandizing & business ventures	18	35	43	43	46	51	46	46	48	48	57	57	57	57	58	58	58			
16	Sub-Total Core Expenditures	1,066	1,025	1,068	1,120	1,193	1,276	1,311	1,331	1,378	1,450	1,475	1,589	1,560	1,569	1,581	1,590	1,597			
Non-Discretionary Expenditures																					
17	• Large Corporation Tax	0	0	0	0	0	1	1	2	3	3	3	3	3	3	3	3	3			
18	• Grants in lieu of taxes (new)	5	5	5	5	6	5	6	6	12	13	18	18	18	18	18	18	18			
19	• Unavoidable new costs of operations												3	16	28	44	60	76			
20	• Inflation on goods & services												0	10	20	31	43	55			
21	• Downsizing costs						24	73	21	16	15	60	48	64	4						
22	• Implementation costs												4	18	15						
23	Sub-total Non-Discretionary Expenditures	5	5	5	5	6	30	80	29	31	31	81	76	129	88	96	124	152			
24	TOTAL EXPENDITURES	1,071	1,030	1,073	1,125	1,199	1,306	1,391	1,360	1,409	1,481	1,556	1,665	1,689	1,657	1,677	1,714	1,749			
25	EXPENDITURES OVER REVENUES	-64	-31	-58	-48	-71	-104	-43	-82	-77	-152	-194	-268	-403	-518	-521	-539	-559			
26	Depreciation and other non-cash items	48	43	46	63	65	74	74	73	97	155	172	150	150	150	150	150	150			
27	SURPLUS (SHORTFALL) FOR THE YEAR	-16	12	-12	15	-6	-30	31	-9	20	3	-22	-118	-253	-368	-371	-389	-409			
28	TOTAL CBC MEASURES TO MANAGE THE SHORTFALL												152	204	246	257	257	257			
29	NET SURPLUS (SHORTFALL) FOR THE YEAR - BEFORE MRC RECOMMENDATIONS												34	-49	-122	-114	-132	-152			

**OVERVIEW OF CBC FINANCES**  
**ESTIMATED FINANCIAL IMPACT OF RECOMMENDATIONS BY MANDATE REVIEW COMMITTEE,**  
**FISCAL YEARS ENDING MARCH 31, 1996 TO 2001**  
(Millions \$ - non-cumulative basis)

PROJECTED ACTUAL DOLLARS

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
<b>REVENUE ISSUES</b>						
<b>A. New Funding Requirements</b>						
30 • Maintenance of the current programming and services for radio and television (line 29 on previous page)	0	49	122	114	132	152
31 • Elimination of advertising revenue and subscriptions, and impact of change in affiliates relationship (line 40 below)	0	0	155	239	297	348
32 • Quantity/quality improvement in programming, less impact of continuous improvement program (line 47 less line 46 below)	0	0	5	10	-20	-50
33 Sub-total new funding requirements	0	49	282	363	409	450
<b>B. Revenue Reduction Related to Advertising</b>						
<b>Elimination of Advertising Revenue and Subscriptions - Exclusive of Professional Sports</b>						
34 • English TV	0	0	-50	-100	-125	-143
34A • Newsworld (advertising)	0	0	-9	-9	-9	-9
34B • Newsworld (cable subscriber fees)	0	0	-40	-42	-43	-44
35 • French TV	0	0	-25	-50	-75	-96
35A • RDI (advertising)	0	0	-3	-4	-4	-5
35B • RDI (cable subscriber fees)	0	0	-22	-24	-25	-26
36 Sub-total elimination of advertising revenue	0	0	-149	-229	-281	-323
<b>Affiliate Relationships</b>						
Partial commercialization						
37 • English TV (affiliates sell advertising, 4-7:30pm)	0	0	-4	-6	-10	-15
38 • French TV (affiliates sell advertising, 4-7:30pm)	0	0	-2	-4	-6	-10
39 Sub-total partial commercialization	0	0	-6	-10	-16	-25
40 Sub-total revenue reduction due to advertising	0	0	-155	-239	-297	-348
41 TOTAL NET REVENUE INCREASE	0	49	127	124	112	102
<b>EXPENDITURE ISSUES</b>						
<b>Quality/Quantity Improvement of Canadian Programs and Replacement of Mainstream U.S. Commercial Programs with Canadian Programs</b>						
42 • Drama	0	0	15	30	30	30
43 • Performing arts programming	0	0	10	20	20	20
44 • Programs for children and young people	0	0	5	10	10	10
45 • Target program needs (group, region, etc.)	0	0	5	10	10	10
46 Sub-total quantity/quality recommendations	0	0	35	70	70	70
47 Reduction of total expenditures due to implementation of Continuous Improvement Program	0	0	-30	-60	-90	-120
48 TOTAL NET EXPENDITURES INCREASE (REDUCTION) BEGINNING IN 1997/98	0	0	5	10	-20	-50
49 NET SURPLUS (SHORTFALL) AFTER MRC RECOMMENDATIONS (Line 29 + Line 41 - Line 48)	34	0	0	0	0	0



# OVERVIEW OF CBC FINANCES

## ESTIMATED FINANCIAL IMPACT OF RECOMMENDATIONS BY MANDATE REVIEW COMMITTEE, FISCAL YEARS ENDING MARCH 31, 1996 TO 2001 (Millions \$ - non-cumulative basis)

PROJECTED ACTUAL DOLLARS

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
<b>RECONCILIATION OF FINANCIAL REQUIREMENTS</b>						
50 Parliamentary appropriations as per the \$350 million shortfall scenario (idem to line 6)	974	855	694	694	695	694
<b>Other funding requirements to finance above noted recommendations</b>						
51 • Maintenance of current programming and services for radio and television	0	49	122	114	132	152
52 • Elimination of advertising revenue (exclusive of pro sports) and of Newsworld and RDI cable subscriber fees	0	0	155	239	297	348
53 • Quantity/quality improvement for radio and television, less Continuous Improvement Program (line 32)	0	0	5	10	-20	-50
54 Sub-total other funding requirements for radio and television (idem to line 33)	0	49	282	363	409	450
<b>55 Total funding requirement</b>	<b>974</b>	<b>904</b>	<b>976</b>	<b>1,057</b>	<b>1,104</b>	<b>1,144</b>
<b>Other sources of revenue (existing)</b>						
56 • Advertising, net (sports only in 2000/01)	305	314	239	171	128	93
57 • Newsworld incremental revenue (idem to line 7)	48	49	0	0	0	0
58 • RDI incremental revenue (idem to line 8)	25	26	0	0	0	0
59 • Miscellaneous (idem to line 9)	45	42	48	52	54	55
60 Total other sources (existing)	423	431	287	223	182	148
<b>61 TOTAL FINANCIAL REQUIREMENTS</b>	<b>1,397</b>	<b>1,335</b>	<b>1,263</b>	<b>1,280</b>	<b>1,286</b>	<b>1,292</b>

PROJECTED ACTUAL DOLLARS

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
<b>IMPLEMENTATION WITH GRADUAL PHASE-IN</b>						
62 MAINTENANCE OF OTHER SOURCES OF REVENUE	423	431	287	223	182	148
63 PHASE-IN OF ALTERNATIVE REVENUE TO FULLY REPLACE ANNUAL OPERATING PARLIAMENTARY APPROPRIATIONS	0	0	500	700	980	1,144
64 PARLIAMENTARY OPERATING APPROPRIATIONS REQUIRED	974	904	476	357	124	0

PROJECTED ACTUAL DOLLARS

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
<b>IMPLEMENTATION WITH NO GRADUAL PHASE-IN</b>						
65 MAINTENANCE OF OTHER SOURCES OF REVENUE	423	431	287	223	182	148
66 FULL REPLACEMENT OF ANNUAL OPERATING PARLIAMENTARY APPROPRIATIONS BEGINNING IN 1997/98	0	0	1,144	1,144	1,144	1,144
67 PARLIAMENTARY OPERATING APPROPRIATIONS REQUIRED*	974	904	0	0	0	0

MANDATE REVIEW COMMITTEE - JANUARY 1996

\* SURPLUS STATUS TO BE DECIDED BY MINISTER OF FINANCE

168 87 40

### NOTICE TO READER:

Ernst & Young compiled the above financial statement from information provided by CBC and the Mandate Review Committee. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that this statement may not be appropriate for their purposes.

Ernst & Young

EXPLANATORY NOTES TO THE FINANCIAL SCHEDULES

Analyzing the Impact of the MRC Recommendations

LINE

1. Base operating vote is the operating appropriations base before any reductions.
2. Other is one time funding received from Treasury Board such as projected for 95/96 and 96/97 for downsizing costs.
3. Finance Minister Mazankowski budget cuts of April 1993, reprofiled to future years.
4. Finance Minister Martin budget cuts of February 1995. Program Review I.
5. Proposed Program Review reductions for 1996-97, 1997-98.
6. SUB-TOTAL PARLIAMENTARY APPROPRIATIONS increased by 17% over the 10 year period of 1984/85 to 1994/95. They would decrease by 27% over the period of 1994/95 to 2000/01.
7. Advertising, net revenues increased by 63% from 1984/5 to 1994/95. Advertising revenues would increase by 20% from 1994/5 to 2000/01.
8. Newsworld incremental revenues are split 80% subscription revenues, 20% advertising revenues.
9. RDI incremental revenues are split 90% subscription revenues, 10% advertising revenues.
10. Miscellaneous refers to items such as land rental, production facilities rental, interest on short-term investments, and program sales.
11. SUB-TOTAL OTHER OPERATING REVENUES increased by 108% over 10 year period of 1984/85 to 1994/95. They could further increase by 20% for the period of 1994/95 to 2000/01.
12. TOTAL REVENUES increased 35% over 10 year period from 1984/85 to 1994/95. Total revenues are projected to decrease by 13% from 1994/95 to 2000/01.
13. All Services core expenditures increased by 31% over the 10 year period of 1984/85 to 1994/95. Parliamentary operating appropriations funded 13% of the increase, while other operating revenues and non-cash expenditures funded the remaining 18%. The increase of All Services expenditures between 1994/95 and 1995/96 includes the following items:
- Pension contributions.
  - CBC coverage of the 1996 Atlanta Olympics.
  - Operating reserves for various restructuring related expenses.
  - New and unavoidable cost of business (mostly taxes).
  - Toronto Broadcast Centre special item.
  - Miscellaneous costs such as international sales activity and reserves for programming.
14. Specialty Services increase due to the phase-out of the contribution from the Department of Foreign Affairs and International Trade funding 50% of the cost of RCI.
15. Selling, merchandizing & business ventures refers to the cost of sales of certain goods and services marketed with the CBC trademark or logo, as well as production related business ventures.
16. SUB-TOTAL OF CORE EXPENDITURES equals the sum of All Services, Specialty Services and Selling, Merchandizing & Business Ventures.
17. Large Corporation Tax. Under the Income Tax Act (Part LXXI), CBC is liable for the LC tax on its asset base.

18. Grants in lieu of taxes increase is principally due to sunsetting of City of Montreal grace period of 20 years on La Maison Radio-Canada.
19. Unavoidable new costs of operations include such items as:  
New and unavoidable expenditures such as increases in payroll based health taxes in certain provinces; premium increases for UIC/CPP; and other Human Resources related expenditure.
20. Inflation on goods & services accounts for an inflation factor of 1%/year.
21. Downsizing Costs. Identified as the costs to be incurred to the Corporation in the form of severance, annual leave, incentive payments, etc.
22. Implementation Costs refers to internal costs associated with: automation (e.g., technology upgrades), staff training, and lease cancellation penalties resulting from building consolidation.
23. SUB-TOTAL OF NON-DISCRETIONARY EXPENDITURES equals the sum of lines 17 through to lines 22.
24. TOTAL EXPENDITURES increased by 45% over the 10 year period of 1984/85 to 1994/95. They are projected to increase by 12% from 1994/95 to 2000/01.
25. EXPENDITURES OVER REVENUES is the difference between total expenditures and total revenues.
26. Depreciation and other non-cash items include items such as employer's share of pension cost and depreciation expenses.
27. SURPLUS (SHORTFALL) FOR THE YEAR.
28. TOTAL CBC MEASURES TO MANAGE THE SHORTFALL refers to the measures (\$227M) announced in November 1995 by CBC president to absorb some of the federal budget cuts.
29. NET SURPLUS (SHORTFALL) FOR THE YEAR - BEFORE MRC RECOMMENDATIONS.
- REVENUE ISSUES - lines 30 to 41 refer to MRC revenue recommendations.
30. Funding required to maintain current programming for radio and television.
31. Additional funding required to offset advertising elimination and change in affiliates business relationship.
32. Additional funding required to improve programming quality/quantity.
33. SUB-TOTAL NEW FUNDING REQUIREMENTS is the sum of lines 30 to 32.
34. Loss of revenue due to the elimination of advertising on English TV (except sports).
- 34A Loss of revenue due to the elimination of advertising on Newsworld.
- 34B Loss of revenue due to the elimination of subscription fees for Newsworld.
35. Loss of revenue due to the elimination of advertising on French TV (except sports).
- 35A Loss of revenue due to the elimination of advertising on RDI.
- 35B Loss of revenue due to the elimination of subscription fees for RDI.
36. SUB-TOTAL ELIMINATION OF ADVERTISING REVENUE - sum of lines 34 to 35B.
37. Cost to CBC of reducing private affiliates ability to advertise. Affiliates would be limited to sell advertising for the 4 to 7:30 pm period on English TV.

# EXPLANATORY NOTES TO THE FINANCIAL SCHEDULES

## Analyzing the Impact of the MRC Recommendations (con't)

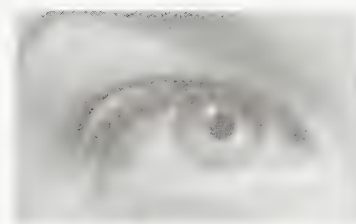
38.	Cost to CBC of reducing private affiliates ability to advertise. Affiliates would be limited to sell advertising for the 4 to 7:30 pm period on French TV.	52.	Idem as line 31.
39.	SUB-TOTAL PARTIAL COMMERCIALIZATION - sum of lines 37 to 38.	53.	Idem as line 32.
40.	SUB-TOTAL REVENUE REDUCTION DUE TO ADVERTISING - sum of lines 36 & 39.	54.	Idem as line 33.
41.	TOTAL NET REVENUE INCREASE - sum of lines 33 and 40. This amount is the net impact on revenue of the MRC recommendations for CBC for the next 5 years.	55.	TOTAL FUNDING REQUIREMENT - sum of lines 50 and 54.
		56.	Advertising, net represents the remaining advertising revenue. It is calculated as line 7 less lines 34 and 35.
		57.	Newsworld would no longer bring advertising and subscription revenues after 1996/97.
		58.	RDI would no longer bring advertising and subscription revenues after 1996/97.
		59.	Idem as line 10.
		60.	Total other sources (existing)- sum of lines 56 to 59.
42.	Cost to improve the quality/quantity of Canadian drama and replace U.S. programs.	61.	TOTAL FINANCIAL REQUIREMENTS-sum of lines 55 and 60.
43.	Cost to improve the quality/quantity of Canadian performance arts programming and replace U.S. programs.	62.	Idem as line 60.
44.	Cost to improve the quality/quantity of Canadian children and young people programming and replace U.S. programs.	63.	PHASE-IN OF ALTERNATIVE REVENUE. Represents the expected financial resources raised via the new tax. The increase in the revenue from year-to-year is a function of an increase in the tax rate.
45.	Cost to improve the quality/quantity of Canadian target needs (group, region) programming and replace U.S. programs.	64.	PARLIAMENTARY OPERATING APPROPRIATION - line 61 less lines 62 and 63. It is the net funding required until the alternative revenue mechanism replaces fully the Parliamentary operating appropriation.
46.	SUB-TOTAL QUALITY QUANTITY RECOMMENDATIONS.	65.	Idem as line 60.
47.	REDUCTION OF TOTAL EXPENDITURES DUE TO IMPLEMENTATION OF CONTINUOUS IMPROVEMENT PROGRAM.	66.	Full replacement of Parliamentary appropriation. Represents the expected financial resources raised via the new tax. This assumes the tax would be implemented January 1, 1997 at the maximum rate needed to replace the operating appropriation by 1997-98.
48.	TOTAL NET EXPENDITURES REDUCTION.	67.	PARLIAMENTARY OPERATING APPROPRIATION - line 61 less lines 65 and 66 for 1995/96 and 1996/97. Nil afterwards as the alternative revenue would generate a surplus for 1997/98 to 1999/00.
49.	NET SURPLUS (SHORTFALL) AFTER MRC RECOMMENDATIONS - sum of line 29 + line 41 - line 48).		
50.	PARLIAMENTARY APPROPRIATIONS AS PER THE \$350M SHORTFALL SCENARIO (IDEM TO LINE 6)		
51.	Idem as line 30.		



III.

THE NATIONAL  
FILM BOARD

THE MANDATE REVIEW COMMITTEE








## I. CHALLENGE FOR CHANGE

Few Canadians with any interest in the cinema would deny that the National Film Board is an institution with a glorious past, one that has given the world original contributions to the arts of the documentary, the animated film and the dramatic feature.

The Board remains associated with giant figures like founder John Grierson and animator Norman McLaren, and creative talents as diverse as composer Maurice Blackburn and filmmakers Claude Jutra, Donald Brittain, Cynthia Scott and Denys Arcand. It has managed to stay in the public eye more recently with controversial and critically acclaimed projects like *The Boys of St Vincent*, *Le Mouton noir*, *the Company of Strangers*, *Au Chic Resto Pop*, and *Kanehsatake*.

The Board's central legislative mandate is summed up in a simple clause: *to produce and distribute films designed to interpret Canada to Canadians and to other nations*. In carrying out this mandate as a public producer, the NFB has contributed to Canada's image as a progressive society that devotes significant public funds to the production of distinctive and often provocative films, many crafted by artists who could not have pursued this kind of work anywhere else.

For most of its existence, the NFB carried out its mandate with resounding success and played a major role in the cultural life of the country. Today, however, just as there is consensus on the NFB's past achievements, there is



THE NATIONAL  
FILM BOARD

widespread agreement that the Board needs to redefine its mission and reposition itself as an essential public institution. The NFB itself has acknowledged the need for radical changes to its goals and operations, and in July 1995 published an impressive discussion paper – *The National Film Board of Canada in the Year 2000* – outlining a strategy for achieving the desired changes. We strongly support the general direction set out by the Board in this document, even if we would go somewhat further in particular parts of the strategy.

## 1.1 NEW REALITIES

As we discuss below, the NFB has a number of *internal* problems that have impaired its ability to focus on its core function – producing films and other audiovisual materials. Until recently at least, these problems have also made it difficult for the Board to reach Canadian audiences effectively.

Nevertheless, it is important to recognize that the public role of any such institution is deeply affected, as well, by *external* factors – particularly those relating to the emergence of competition from private sector interests... and the fiscal pressures on the federal Government to reduce Parliamentary appropriations to organizations like the NFB, the CBC and Telefilm.

Before 1980, Canada had few large-scale production houses and few independent filmmakers who had the financial resources to get a documentary made and distributed outside the NFB's established infrastructure. Canada's broadcasting system offered few outlets for Canadian-produced films of any kind, apart from the CBC and CTV networks in English Canada, and the SRC and TVA networks in French Canada.

In the late 1970s and early 1980s, the tide began to turn. The TV marketplace burgeoned with new channels (both Canadian and American), and with the spread of cable technology, they became available to more and more Canadian viewers. As a direct result of Telefilm's activities, and the more demanding Canadian content conditions being imposed on broadcasters by the CRTC, Canada's independent production industry began to blossom.

A wide range of full-length feature films were produced for theatrical release and TV by private production companies. Some firms, like Nelvana and Cinar, created a private-sector animation industry where none had

existed before – and grew into major international suppliers. Even in the niche market for point of view documentaries, a prolific independent community developed outside the NFB which produces its work for conventional television outlets like CBC, SRC and TVOntario, or for the new specialty channels.

The reduction in the NFB's Parliamentary appropriations has also forced the Board to come to terms with some fundamental choices. Given the reality of scarce resources, what are the organization's filmmaking priorities and how does the NFB reallocate its resources to support those priorities?

It is not difficult to see that the NFB's original mandate, and its historical successes, are part of an economic and communications universe that has changed dramatically. Given the scope of these changes, it simply isn't possible for the Board to continue to function as it has in the past.



## 1.2 BUILDING ON STRENGTH

Two things have made the NFB a unique Canadian institution. First, it has provided opportunities for new, emerging and established filmmakers to work in an atmosphere free from the constraints of the commercial marketplace. Second, the Board and its creative personnel have provided fresh and often iconoclastic perspectives on the rhythms of daily life in Canada.

The NFB continues to encourage filmmakers (and particularly under-represented social groups like women and visible minorities) to express their artistic visions and points of view, rather than merely satisfying the commercial and audience expectations of distributors and broadcasters. As an integral part of this philosophy, the NFB accords a high priority to freedom of expression and acts as a platform for exploring provocative and socially relevant topics, styles and film genres.

We are convinced that the NFB has a repository of skills, experience, a willingness to experiment, and a tradition of excellence that, under the right conditions, will enable it to play an indispensable public service role once again. A renewed NFB can, we believe, provide a service that *neither* its sister institutions nor the private sector are in a position to provide.

At their best, NFB films and audiovisual products should continue to offer emotional depth, experimentation and risk taking, and a penchant for social commentary that is not typical of either CBC or Telefilm-supported productions. A new NFB, while taking a less insular approach to its dealings with outside filmmakers, private sector suppliers and its diverse audiences, should be designed to:

- *act as a centre for nurturing new and emerging filmmakers;*
- *provide opportunities for established filmmakers to visit on a “resident” or contract basis and explore styles of filmmaking that would not be feasible outside the Board;*
- *ensure strong regional centres across the country which provide resources and opportunities for local filmmakers;*
- *use a variety of pathways – film, television, video, electronic distribution, new media – for reaching Canadian audiences in their homes, schools, businesses and movie theatres;*
- *more generally, support development of documentary, animation, educational and some feature-length fiction genres where the market has failed to provide these in sufficiently large numbers.*

### 1.3 ISSUES

In order for the NFB to enjoy a new lease on life, a number of structural and operating problems must be resolved. Moreover, its role must be brought into line with new fiscal realities, a new communications environment, and a new relationship between audiences and content providers.

Over the past 15 years, a number of task forces, Parliamentary committees and consulting reports have proposed sweeping changes to the NFB’s mandate and operations. The recommendations proposed in these documents have been far from consistent and as a matter of record, few have been implemented.

Nevertheless, both a reading of previous studies and the work of this Committee point to several pervasive structural problems at the NFB which



have also been identified in the Board's strategic plan. These can be summed up as follows:

- *First, an uncertain role.* As we mentioned earlier, the NFB has been severely buffeted by a rapidly changing environment, and this proud and distinguished organization is no longer as clear about its "raison d'être" as it once was. This uncertainty has had an unsettling effect on the NFB's employees, on outside producers and filmmakers, as well as on broadcasters and distributors who provide outlets for the Board's productions.
- *Second, use of resources.* For years now, the NFB has lacked what it describes as sufficient "free money" to devote to the development and production of new projects. While this is due, in part, to shrinking NFB budgets, it is also caused by the fact that an inordinate proportion of the Board's funding gets absorbed into infrastructure and overhead. We note, for example, that almost one in two of the Board's permanent employees (47%) now works in administration or in other non-production departments. This is more than a problem of administrative efficiency, since the net effect has been to cut sharply into the funds available for the Board's core function – producing films and audiovisual materials for public consumption.
- *Third, audience reach.* While the NFB's philosophy is to avoid the traps of producing work to fit the needs of the commercial marketplace, its mission is not merely to make films; it is also to make them available. Despite recent successes in getting NFB films on a wide variety of television services, the Board's distribution activities have not been effective enough in reaching Canadian audiences in sufficient numbers over the years to support its mandate or to justify the funds spent on distribution. The distribution issue also goes to the larger question of whether NFB productions have lost some of their ability to strike an emotional or intellectual chord with the Canadian public.
- *Fourth, centralization.* As things stand, four fifths (81%) of the entire NFB staff works at the main Côte-de-Liesse offices in Montreal, and about 75% of the Board's budget is allocated to activities in Montreal. The Toronto staff makes up 4%, while the remaining 15% work in other production centres across the country. The Committee does not believe that this is an appropriate allocation of the Board's resources. On the one hand, far too many resources are concentrated in Montreal, while on the



other, there are insufficient resources deployed to answer to the needs of creative talent in other communities across the country.

- *Fifth, the use of freelance talent.* The NFB is locked into contractual arrangements that protect the jobs of permanent staff while limiting the use of outside talent. Both freelance filmmakers and outside service suppliers are often in a position to carry out creative and technical tasks as effectively and more cheaply than in-house staff, as the experience in the NFB's regional offices has shown. The inflexibility of the current arrangements needs to be re-examined on an urgent basis.

## 2. FILMMAKING ACTIVITIES

### 2.1 RESOURCES VS OUTPUT

While the *National Film Act* places no restriction on the film genres the NFB may produce and distribute, the Board's work has, for many years, centred on documentary production. During the past three fiscal years, documentaries have accounted for 71% of the titles produced or co-produced by the NFB (and about 69% of the total production budget). Even though the Board is widely renowned for its work in animation, animation accounted for only 10% of titles (and 8% of the production budget) over this three-year period. Feature films, made for television dramas, educational and short films accounted for 19% of the titles produced (and 23% of the budget).

While the Committee wishes to comment generally on the appropriate balance of film genres in the Board's production slate, it is no less important to look at how its production efforts fit into the larger budgetary picture.

Over the past three fiscal years (92-93 to 94-95), the NFB's Parliamentary appropriations were \$83.0 million, \$83.4 million, and \$82.1 million respectively. During the same period, the NFB's earned revenues were \$8.4 million, \$10.1 million and \$10.8 million, leaving the organization with total revenues of \$91.4 million, \$93.5 million, and \$92.9 million over each of the three years.

Like its sister institutions, the NFB will be absorbing a cut of more than 30% over the next three years, leaving the Board with a dramatically reduced Parliamentary appropriation of \$56 million by 1997-98.



Over the three years mentioned above, the NFB produced or co-produced 87 films a year, averaging 32 in French and 55 in English. This production slate yielded an average of about 78 hours of films a year.

The NFB spent an average of \$31.6 million a year in production funds to produce or co-produce these 78 hours a year, or about \$405,000 in production funds for each hour of film. Over the three-year period, the NFB devoted only 34% of its total budget to production activities.

It's also revealing to look at the annual production output in a less conventional way, and to see how much it costs the NFB to "support" each hour of production. If we amortize the NFB's non-production costs (administration, marketing, distribution, etc.) over the 78 hours of annual production, it indicates that the Board spent an additional \$782,000 to support each hour of film production.\*

Finally, the production output has to be measured against the allocation of in-house staff resources. According to figures supplied by the Board in response to the Committee's questions, 61 permanent and temporary employees are designated as film directors. That means that the in-house filmmaking staff – not counting producers, technicians or other production support personnel – accounted for slightly more than an hour of finished film per person per year.

The Committee recognizes that the NFB filmmakers work to exacting standards and this is, inevitably, an expensive proposition. Moreover, Board personnel have traditionally engaged in experimental and personal filmmaking, and these activities, which we encourage the Board to continue, cannot be measured strictly in cost/benefit terms. Experimental work by its nature involves trial and error, and therefore some slippage of time and resources.

Nevertheless, we find it difficult to justify the Board's overhead expenditures and its level of productivity in an era of ever shrinking public funding and ever growing audience needs. The figures presented above illustrate the degree to which overhead costs have absorbed the money that should have been used for production, and explain, in large part, why the Board has so little "free money" for filmmaking. If the proposed budget cut of more than

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\* To be fair to the NFB, it should be pointed out that this expenditure includes distribution activities that also support the Board's extensive film catalogue.

30% is to proceed, then we feel strongly that the overwhelming proportion of these cuts must be applied to non-production activities.

Before proceeding with any recommendations about the appropriate use of resources, we feel it's crucial for us to elaborate on our earlier points about the Board's role in the coming years.

## 2.2 WHY THE FILM BOARD?

Let's be clear from the outset: Canada needs the National Film Board, even though the NFB must undergo some serious adjustments. *We believe strongly in the importance and the independence of the NFB*, and in the need to ensure that it has the proper mandate and resources to fulfill a new and strengthened role.

As we have discussed previously in this report, most Canadian film and television production in the categories of drama, documentaries, children and performing arts, would be virtually impossible without some form of Government subsidy or support. This market reality applies particularly to more complex productions that focus on Canadian themes and are designed primarily for domestic audiences, rather than for export audiences. The same principle applies even more to productions in those genres that deal with difficult or controversial themes, or are inherently experimental in nature.

This whole area of production, while attracting some private-sector interest, does not normally provide a significant financial return – nor can it be expected to. Ensuring that films, TV programs and other audiovisual materials of this kind *do* get made for Canadian audiences is exactly what the NFB has done so well in the past. And we must be able to count on the NFB to continue to fulfill this kind of role in the future, along with its sister institutions, especially the CBC.

### **RECOMMENDATION:**

**The NFB should continue to play an essential role in the cultural and social life of Canada as a key public producer.**





## 2.3 WHAT KIND OF PRODUCTION?

The Committee generally supports the NFB's approach to the kinds of material it should be producing, though with some important qualifications. We believe the Board must devote its production efforts primarily to five well-defined areas:

- documentaries
- animation
- educational materials
- fiction
- new media.

*Documentaries.* These have been at the heart of the NFB's production efforts for decades, and will continue to be a priority. While we endorse the Board's strategy at the production level, we have some serious questions about who should be making its documentaries, and how those documentaries are made available to Canadian audiences.

*Animation.* This genre has an equally long and distinguished history at the Board, and it too deserves continued support – but with a change of emphasis we feel is crucial. Even more than documentary production, animation has been the preserve of film artists who have worked in an experimental environment in which neither productivity nor exposure to audiences has been a priority. While the Committee feels strongly that Board animators should maintain this tradition, we also feel that the emphasis on artistic experimentation must be balanced by animated films and series produced on schedules and budgets that make them suitable for wider distribution. The goal of doing so is not simply to realize a commercial return on such titles, but rather to make the Board's work in this area far more accessible to a range of audiences than it has been in the past.

*Educational materials.* The NFB has considerable experience in supplying educational materials to both schools and other institutions, particularly provincial educational broadcasters. These efforts should be reinforced. Once again, however, such efforts must be reviewed and revised to reflect new social and educational concerns... the spread of lifelong learning as a social value... and

the new distribution channels – like Cable in the Classroom and School Net – that will make the Board's efforts effective as well as economical.

*Features.* The Board's proposal to withdraw from the production of full length features and television dramas raises some concerns for the Committee. We understand the fiscal reasoning behind this proposal – to save money, given the high costs associated with projects of this kind, especially if they are to achieve a level of production value that would make them acceptable for wide release.

We are not convinced, however, that it is either desirable or necessary for the NFB to withdraw entirely from the production of fiction-based features. Scarce resources will naturally impose constraints. For example, the Board will have to be highly selective in the projects it chooses; and many of these projects will have to be undertaken with private-sector partners in the form of co-productions. But given the fact that the private sector is not producing many distinctive, high quality, full-length Canadian features, we believe that the NFB has an important role in developing this genre, and in making sure that these films reach a broader audience. The NFB has the talent to create new forms of filmed fiction, and work in this area should include a significant commitment to script development.

*New media.* Finally, and as noted below, the NFB has undertaken several initiatives utilizing what we have described as “new media.” These are essentially of two different types: online services, which operate over computer networks (of which the Internet is the leading example); and packaged titles, which may include cassettes, laser discs, CD-ROMs and accompanying materials. While we describe these more fully in the new media section of this chapter, we would note here that the Board is ideally placed to act as a developer and co-developer of new media content and technologies. But we would also emphasize that the Board must position new media initiatives as enhancements to its core activities and as a method of ensuring that Canadian institutions will be able to provide *Canadian* content for new and emerging media as they become more established in the marketplace.



## RECOMMENDATION:

**The Board should focus its production efforts on:**

- **innovative, long form documentaries;**
- **both experimental and more broadly accessible animated films;**
- **a wide range of educational materials designed for young audiences;**
- **a limited number of distinctive, feature-length movies and television dramas;**
- **a variety of new media initiatives that would be part of a wider strategy to make new content forms, created in Canada, available to domestic audiences.**

## 2.4 BOLSTERING PRODUCTION

It should probably go without saying, but we will say it anyway: everything the NFB does must be focused on the creation of superb, original and innovative films and other audiovisual materials that flow from its mandate. While it would be an exaggeration to say that all the rest is mere house-keeping (distribution is an ever-more vital link in the chain), the Board must orient its resources and its proposed structural reforms to the core mission of excellence in production.

To accomplish this end, the Committee believes that the NFB must do everything possible to free up production funds and bolster its creative staff and collaborators.

It is clear to the Committee that both the quantity and quality of NFB productions have been hampered by inflexible and outmoded staffing practices, as well as by the way that staff and resources have been deployed across the country. The Committee has several concerns with respect to staffing and several suggestions on how current practices should be reformed.

*Creative personnel.* The NFB must move to a system under which creative functions are performed to a far greater extent by outside filmmakers, rather than by long-term or permanent Board staff. This emphasis on freelancers and outside suppliers, as well as independent producers involved in co-pro-

ductions, will achieve an essential goal: to ensure that the Board attracts the best filmmaking talent in the country. Eventually, we believe, the vast majority of NFB films should be made by independent filmmakers.

It follows that the number of staff producers, filmmakers and technicians must be reduced significantly, with this transition being achieved over a three-year period. The model we propose would have a small staff complement of executive or commissioning producers and studio heads (with strong creative skills) to initiate, assess and supervise production projects. A number of experienced producers and filmmakers would act in a mentor role for younger residents or freelancers.


#### **RECOMMENDATION:**

**The NFB should greatly reduce its complement of permanently employed producers, directors and technicians, and make regular use of freelance and contract personnel for development, production and post-production activities.**

Above all, the NFB must restore a proper balance between creative and administrative personnel. Information provided by the Board shows that the proportion of permanent staff working in administration or other non-production departments has remained more or less constant at about 47% of total staff, or about one staff person in two. As the staff complement is reduced and the resources are redeployed, the goal must be to reduce administrative overheads to an absolute minimum – and to bring the proportion of staff and budget devoted to administrative activities into line with generally accepted standards for large, creative organizations. It should also lead to the reallocation of significant funds to production activities.

#### **RECOMMENDATION:**

**The Board should continue to reduce staff in administrative positions to a point where their ratio to overall staff drops to a level consistent with industry practice in other large producing organizations. The Board should also review the staff levels in its production support activities.**



THE NATIONAL  
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*Decentralization.* As we've indicated, the NFB is highly centralized. Over four-fifths of its staff (81%) works at the Montreal headquarters, while a mere 4% work in the Board's Toronto office. The remainder are employed at production centres across the country.

We agree strongly with the NFB's strategy paper when it argues that the current deployment of staff and money does not take best advantage of the Board's resources, nor serve the NFB's constituencies appropriately. The regional production centres must be strengthened, with some of the resources now linked to the Montreal head office being redirected to regional production and to development activities that more effectively reflect the Board's national character. Moreover, the Toronto production office must become the headquarters for English-language production. French-language production and the Board's animation work would continue to be concentrated in Montreal.

These proposals will have the effect of making many of the physical resources and facilities at the Côte-de-Liesse head office unnecessary. The Committee feels that the head office complex has not only become a burdensome expense; it has also become symbolic of an organization that has become over-centralized and has sometimes worked in isolation from other elements of the industry and the filmmaking community. These facilities should be phased out, and replaced with a new and smaller production centre in downtown Montreal.

#### **RECOMMENDATION:**

**The NFB's head office, its French-language production activities, and its animation activities should stay in Montreal. The Board's English-language production activities should be moved to Toronto over the next two years, with only a regional English-language production centre staying in Montreal.**

#### **RECOMMENDATION:**

**The NFB's head office, production activities and essential technical facilities should move to a new and smaller production centre in downtown Montreal. The Côte-de-Liesse building should be vacated, and the building and parts of the technical operation should be sold or leased by the Department of Public Works.**



As part of its overall restructuring, the NFB should proceed with a new measure proposed in its July 1995 discussion paper: that Board producers should compete for resources on the basis of merit, rather than entitlement. The idea behind the proposal is that Board projects should not be funded in a manner that a) treats resources as plentiful, when they are ever more scarce; and b) treats staff projects as all equally deserving of support. The measure as presented also would spread resources over regional production centres in a much more *equitable* fashion than in the past. The Committee endorses this approach.

#### **RECOMMENDATION:**

**The NFB should proceed with its plans to create a pool of English and French language production funds that internal units would have to compete for on the merits of their projects. It would be part of an overall goal to put more money into production (through the reallocation of funds from overhead to production), and to allocate additional funds to production centres across the country.**



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## **2.5 A NEW EMPHASIS ON TELEVISION**

**A** word here on the increasing importance of television as a vehicle for reaching Canadian audiences. Although we discuss this below in the context of distribution channels, it is worth emphasizing that in terms of filmmaking and production priorities, the NFB must devote more attention and resources to material that is designed for Canadian television audiences.



### 3. AUDIENCES & DISTRIBUTION

#### 3.1 REACHING THE AUDIENCE

The size of the NFB's audiences can be measured in a number of ways, depending on whether the films in question represent production in the current year, over several years or over the entire scope of the catalogue, which features 9,000 titles. Audiences can also be measured of course in revenue terms, rather than in the number of viewers, or end-users. However such measurements are undertaken, the simple fact is that the NFB reaches the vast majority of its audiences through **television** (80% to 90%), and this TV exposure clearly enhances the Board's appeal to other target markets.

The **educational and institutional markets** are far less important to the Board than television in terms of sheer audience numbers, since they account for a mere 8% to 14% of the total audience, depending on the year and the films brought into the calculation. On the other hand, they account for a far higher proportion of revenues generated. Over the past three years, revenues from this market segment totalled about \$8 million – or about 46% of the NFB's distribution revenues over this period.

The **home video and the festival and theatrical markets** are significant in symbolic terms, as the NFB relies on them to maintain its public profile. Of the films produced in 1994-95, however, home video accounted for 0.7% of the audience, and movie theatres and festivals for only 1.5%. Some of these figures are higher when measured using the entire NFB catalogue.

Despite the fact that the NFB reaches its audience predominantly through television, the Board has long been reluctant to consider itself a producer of



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films intended exclusively or even primarily for television. This has clearly contributed to an uneasy relationship between the Board and conventional television broadcasters – including both the French and English networks of the CBC.

The Committee is equally concerned about the traditional reluctance shown by the CBC and SRC to air NFB productions, on the grounds that they have limited audience or commercial appeal... do not satisfy their journalistic standards... reflect only the filmmaker's viewpoint... or are simply too controversial. And yet the films that have so often been left in limbo are precisely those that could help CBC's French and English networks become more distinctive.

The NFB estimates that 80% of its televised films now appear on provincial educational broadcasters; specialty services such as Vision, Bravo!, Discovery, Showcase and Canal D; and local CBC stations. Furthermore, 77% of NFB television distribution revenues in 1994-95 (excluding pre-sales) were generated by educational and specialty services or regional stations.

The introduction of a large number of Canadian pay-TV and specialty services has been a mixed blessing for the Board. While sales to these smaller services have provided far greater television access for NFB productions (which we applaud), they do not reach large numbers of Canadians. These services also pay licence fees that are dramatically lower than those paid by the conventional networks.

Nevertheless, taking into account all the NFB's markets, in both official languages, the Board estimates that the films it produced in 1992-93 reached 21.3 million viewers; for those produced in 1993-94, 9.6 million viewers; and for those produced in 1994-95, 11.3 million viewers. That means a total estimated audience of 42.2 million over the three years in question, or an average audience of about 160,000 Canadians per film.

Like many averages, however, these figures conceal some important truths. When conventional network television audience figures are factored into the calculations, they illustrate that a handful of NFB productions garner huge audiences, and distort the averages significantly. For example, the drama mini-series *The Boys of St Vincent*, co-produced by the NFB, reached nearly 10 million television viewers in its French and English versions. That

amounted to almost 50% of the total audience for all productions produced or financed by the NFB in 1992-93.

Nevertheless, the audience figures illustrate some improvement in recent years in the Board's ability to make its production available to Canadians in a volume and on a basis that can support the Board's annual budget of more than \$90 million in the past three years. We still see two fundamental problems, however, in the NFB's approach. The first is a reluctance to factor distribution issues sufficiently into production planning. The second, as we'll discuss in a moment, is the enormous gap between what the NFB spends on distribution and what it generates in revenue.

### 3.2 COSTS & RESOURCES

In 1994-95, marketing and distribution budgets accounted for about one-quarter of the Board's annual expenditures. Marketing and distribution operations include the sale of films and videocassettes to educational and institutional customers, sale of broadcasting rights to regional, national and international broadcasters, videocassette rentals, the presentation of films at festivals, the management of video libraries and public movie theatres, and mail order sales.

In the 1992-95 period, the NFB's distribution and marketing costs totalled roughly \$70.8 million. These expenditures generated total distribution revenues of \$17.5 million over the three years – meaning that the Board spent *almost four times* as much as it made in this area. We have two reasons for stressing this point: the first is that it diverts a great deal of the money that could be invested in production; the second is that it raises serious questions about how effectively (and successfully) the NFB distributes its product. In its discussions with the Committee, however, the Board indicated its strong commitment to improved performance in this area by reducing costs and increasing revenues over the next two to three years.

Clearly, a situation has developed in which the Board's distribution infrastructure and the realities of the marketplace are no longer in synch. How this situation came about makes a good deal of sense when viewed in historical perspective. Until quite recently, the NFB treated its distribution activities more as a vehicle for social and cultural animation than as a significant source of revenues. Its purpose was to worry first and foremost





about making its films and videos available in both languages to all Canadians, including those in remote areas. In this social policy framework, pricing was based on the Board's reach rather than on cost recovery.

Whatever the Board's original priorities, we believe that the changing environment – which has greatly increased competitive forces, while decreasing available resources – requires a bold new approach to distribution.

#### **RECOMMENDATION:**

**The Board should set full cost recovery as a clear target for its distribution activities. The Board has already achieved this goal in its international distribution, and it would require a major cutback in the Board's domestic distribution activities, staffing and expenditures.**

By setting this target, the Committee believes the NFB could generate at least \$8 - \$10 million a year through a combination of distribution savings and increased revenues. These funds could be used to offset some of the budget cutbacks, without affecting the NFB's ability to produce, and without reducing its audience potential.

Apart from cost-cutting measures and rationalization, the distribution problems outlined above should be tackled from two different and complementary angles. One concerns the way distribution decisions are made; the other concerns the established and emerging delivery channels that are appropriate for the NFB as it looks ahead to the 21st century.

### **3.3 DISTRIBUTION DECISIONS**

In the past, the Board appeared to give insufficient priority as to how a particular film would be distributed when in the development or pre-production stages. The record suggests that the Board's production decisions are still based more on considerations of artistic merit, rather on considerations of potential audience interest. The Committee is sympathetic to the emphasis on artistic merit, but we feel the Board must now give far more consideration than in the past to reaching the "natural audiences" for each of its productions.

The Committee cannot create a blueprint that will provide a solution to every NFB project as it goes into development. Each project will require difficult judgment calls – that is the nature of the creative process. What we do suggest, however, is that effective immediately, the Board should commit no funds to any project past the development stage without first having determined explicitly: i) the intended audience for the finished product; ii) its anticipated life cycle; iii) the appropriate distribution channels for its release; and iv) its priority on the overall production slate, taking into account the full production costs and anticipated return, if any.

We do not see this model limiting the creation of a certain number of personal or experimental projects that are unlikely to generate significant revenues. Our idea is not to eliminate this kind of creative activity, but rather to ensure that the distribution plan for every project is explicitly defined *before* production funds are committed; and, even more important, to ensure that the great majority of Board resources are allocated to projects that do in fact have a clear marketing and distribution plan.

### 3.4 DELIVERY CHANNELS

The second major distribution challenge facing the Board concerns not just if and when to spend money on distribution, but the need for a fresh look at both existing and emerging delivery channels – the pathways to the NFB’s audiences, be they in schools, homes, public venues or elsewhere.

The NFB has four major delivery channels, which can be grouped as follows:

- television, conventional and specialty;
- movie theatres;
- home and institutional video, based primarily on the conventional videocassette;
- electronic distribution: some early development has been completed on high-bandwidth digital links through the Board’s CinéRoute project.

The NFB is currently active to some degree or other in all four of these distribution channels. But its commitment to each – and the degree to which it has been successful in reaching its audiences – suggests that it needs to re-examine its priorities carefully.



The Committee believes that the Board must strengthen and clarify its role in television, since this medium draws by far and away the largest proportion of the Board's audience. At the same time, funds devoted to theatrical distribution should be reduced, given the Board's more selective approach to full-length features and the continuing problems associated with gaining access to Canadian movie screens. We also believe that the Board should make far greater use of private distributors for both its current production and for the exploitation of its extensive library of titles.

**RECOMMENDATION:**

**The NFB should focus most of its distribution energies on getting television exposure for its films, on both conventional and specialty television services.**

**RECOMMENDATION:**

**The NFB should also work more closely with private sector distributors to seek new commercial opportunities for both its current production schedule, as well as its extensive library. This initiative would generate additional revenues and reduce in-house costs.**

The NFB's renewed commitment to television must also include a more formal and collaborative relationship with the CBC and SRC. As we indicated earlier, we believe that the CBC and SRC could be a natural outlet for showcasing the NFB's best films; and that these films could help the CBC's English and French networks become more distinctive.

**RECOMMENDATION:**

**The NFB should reach a "preferred supplier" agreement with CBC and SRC, which would include commitments on an annual stream of NFB productions to be aired on the main networks, as well as Newsworld and RDI.**

### 3.5 NEW MEDIA

Recently, the Board has devoted considerable resources to projects called CinéRobothèque and CinéRoute. These two ventures mark the NFB's increasing attention to developing electronic transmission and remote access methods with respect to its products, especially for the educational market.

The NFB has put thousands of back titles on laser disc as part of its CinéRobothèque initiative in Montreal. Although storage on optical disc greatly prolongs the life of filmed material and makes the viewing experience more convenient, the laser disc format that has been used for the CinéRobothèque is analog, not digital.

Apart from the issues of cost and the wisdom of devoting resources to a wide range of back titles, the decision to proceed with a non-digital optical format places limitations on future uses of this material. The NFB should continue to make films and other audiovisual products available as video cassettes or in digital disc formats. But in doing so, it must be highly selective in deciding which titles to make available in this form and cautious about the costs involved.

Here is how the NFB's World Wide Web site describes the CinéRoute project:

CinéRoute is a remote film-on-demand service now in its initial test phase. It was created through a joint venture agreement with Vidéotron Télécom Ltée (VTL), which provides the service and transmission equipment linking the CinéRobothèque at NFB Montreal to the universities now participating. In the first phase, the service is being offered at McGill and Université du Québec à Montréal.

While the Committee is impressed with the work the Board has done to keep ahead of advances in electronic distribution, we have some reservations about the approach being taken in the CinéRoute project.

Our major concern is that the Board is involved in a costly experiment with a broadband service – the delivery of movies on demand – which by its nature is available to only a small group of end-users (in this case, students and staff at UQAM and McGill). Video on demand has, moreover, proven



to be a disappointing application in interactive service trials elsewhere in North America. Some "leading edge" experimentation in this area is appropriate, especially if undertaken with well-capitalized private-sector partners. But it should not be allowed to prevent the implementation of more mature narrowband applications, such as those available today to millions of computer users on the Internet.

We note that the Board has created a presence on the Internet by launching its own Web site, inaugurated on September 7, 1995: the site address is <<http://www.nfb.ca>>. This too is a step in the right direction, since the Board cannot hope to play a useful role in communicating its messages to Canadians over the next decade if it has not developed its own capabilities in these new and growing distribution channels.

While it's still early to pass judgment, we're concerned that the Web site not only focuses too much on the catalogue, but also tends to be text-heavy, linear and historical in its orientation. Another sign of growing pains involves the discovery the Committee made when we logged on to the site during the preparation of the report: on that occasion, the site had not been updated for over a month. Both Web culture and the Board's prospects require that this resource be treated in a much more topical fashion. We are encouraged to see that the Board has promised to bring its Web audience some useful applications in the near future, the most noteworthy of these being the Board's huge stock shot library.

The Board should continue to pursue ways to provide more effective audience access to its film library by using a variety of emerging digital distribution systems. As part of these efforts to find better ways of reaching its audience, the Board should also be engaged in developing individual production projects with experienced partners using where appropriate large-format and 3-D screens, multimedia installations, virtual reality environments and other out-of-home exhibition technologies as these become more established in the marketplace. The fact that the NFB was involved in the development of the now highly successful IMAX large-screen technology suggests this is an appropriate course for the Board to take. However, the Board should avoid any direct or indirect investment in screening facilities or related physical plant.



### 3.6 CATALOGUE & STOCK SHOTS

Apart from the production of new materials, the Board has two very valuable resources in its catalogue, containing more than 9,000 titles, and its renowned stock shot library. The Board has devoted considerable resources to transferring back titles to video disc. Moreover, it has announced plans to make its stock shot library available by means of online platforms, i.e. high speed computer networks.

The Committee feels that these libraries represent a rich and culturally significant resource for Canada. At the same time, we caution the NFB to proceed with care before committing large sums of money for redirecting this material or making it available through new distribution channels. As we noted, for example, the video disc technology chosen for the transfer of thousands of back titles is analog rather than digital. If the Board is to reorient its catalogue for new media platforms like CD-ROMs and online computer links, then it must plan for the rapid pace of convergence based on digital technology.

The value of these libraries should be a crucial factor in deciding how much the Board should invest in their commercial exploitation. We would argue that the value should be assessed, however, in both financial and creative terms. We do not think it appropriate for the Board itself to attempt to determine the market or creative value of its own libraries. This must be undertaken by a reputable and objective outside party.

#### **RECOMMENDATION:**

**The NFB should undertake an audit by outside experts of all its existing library holdings, in order to determine their fair market value, before embarking on a strategy to develop this resource.**





## 4. BUDGETARY & LEGISLATIVE ISSUES

### 4.1 BUDGET & RESOURCE ALLOCATION

At this writing, the NFB's internal planning is based on an anticipated 30% cut to its Parliamentary appropriation. If this cut is implemented, the Board's appropriation would drop to \$56 million in 1997-98. In addition to its appropriation, the Board expects to realize earned annual revenues in the range of \$11 million over the next three years, leaving the NFB with a projected budget of about \$67 million in 1997-98.

While the exact budget level is a matter of great concern to the Board, the Committee did not feel it was appropriate to comment on the funding issue in absolute terms. It is important to realize that the Board finds itself in a very different situation compared to that of the CBC – or even Telefilm for that matter. The difference is that the NFB is not committed by mission or contract to a predetermined level of production. The level of production, and production values, can be adjusted to fit the Board's particular fiscal circumstances.

By contrast, the CBC's primary function is to put programs on the air. It has scheduling, audience and regulatory expectations to fulfill, and would find it difficult to cut back on the number of "prime time" programs it provides for its national networks. By the same token, Telefilm's activities are tied closely to leveraging investment from its private sector partners in the production and distribution community. Thus Telefilm must strive to meet its external funding commitments as best it can.

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It is also important to remember that over the past five years, the NFB has not experienced the same level of cutbacks in its Parliamentary appropriation as either the CBC or Telefilm, suggesting that some significant efficiency savings are available to the Board. Nevertheless, the Committee believes that the NFB Parliamentary appropriation should not be allowed to fall below the \$56 million level. The Board requires a critical mass of talent and production activity across the country to fulfill its cultural role and its mandate, and we would argue strenuously against any further cuts.

We would only add that while the NFB will have to scale back certain operations to balance its budget, it must do so in a way that places the highest priority on production, as well as on cost-effective distribution of the audio-visual material produced. The Board must not allow fiscal constraints to hamper its core activities while administrative overheads and operating inefficiencies remain unaddressed. From what we have learned in our discussions with the Board's senior management, we have every confidence that future budgets will focus more of the Board's funding on filmmaking, and less on its administrative and distribution activities.

## 4.2 COST REDUCTION

As we indicated earlier, we believe that cost reduction must become a major goal for the NFB. This is a natural consequence of reduced Parliamentary appropriations. But we are also concerned about the Board's overall efficiency... and the disproportionate amount of public money that is being spent on administration, distribution and overhead, instead of on production.

As a result, we would suggest that the NFB look at a number of significant cost savings over the next two years:

- move the head office from the Côte-de-Liesse complex in Montreal and dispose of a significant part of the technical plant;
- reduce the permanent staff in all job categories;
- acquire many of its technical services from the private sector;
- cut administrative costs to a percentage of the overall budget that is consistent with production industry standards;

- cut distribution costs substantially, and put the Board's distribution activities on a full cost recovery basis;
- contract out non essential administrative services and support functions, if they can be supplied more cost effectively by the private sector.

### 4.3 LEGISLATIVE AMENDMENTS

Our purpose in this section is to examine certain provisions of the Board's enabling legislation, the *National Film Act*, in order to recommend changes we believe will strengthen and clarify the Board's role for the coming years. It's important for us to stress, however, that while these legislative changes are useful and long overdue, they are not essential to the core recommendations we make in this chapter.



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Section 9 of the *Act* stipulates that:

the Board is established to initiate and promote the production and distribution of films in the national interest and in particular:

- (a) to produce and distribute and to promote the production and distribution of films designed to interpret Canada to Canadians and to other nations;
- (b) to represent the Government of Canada in its relations with persons engaged in commercial motion picture film activity in connection with motion picture films for the Government or any department thereof;
- (c) to engage in research in film activity and to make available the results thereof to persons engaged in the production of films;
- (d) to advise the Governor in Council in connection with film activities; and
- (e) to discharge such other duties relating to film activity as the Governor in Council may direct it to undertake.

As a general matter, the enabling legislation does not reflect the communications environment in which the NFB now operates.



**RECOMMENDATION:**

**The NFB's enabling legislation should be amended to reflect the contemporary communications environment.**

As noted earlier, the Board's enabling legislation is vague as to the *types* of films it is mandated to produce and disseminate. On the other hand, one of the most striking anachronisms in the mandate concerns the restrictive way in which film is defined as the Board's operating medium or technology. In addition to motion pictures, it includes photographs, filmstrips and other forms of visual presentation consisting solely or primarily of photographs or film work. The *Act*, which came into force just two years before the CBC's first television broadcast, makes no reference to television, nor of course to video and the new electronic media. The Committee feels it is vitally important that the scope of the Board's activities be broadened by inclusion of other media, in such a way that the Board can benefit from the emergence of new and as yet undiscovered media in years to come.

**RECOMMENDATION:**

**The NFB should be encouraged through legislative amendment to produce materials for a broad range of audiovisual media, including but not restricted to conventional film, large format film like Imax, computer generated animation and motion video, broadcast television, analog videotape, and new and emerging digital formats such as online computer networks, optical disc platforms and location-based, interactive environments.**

ROLE OF GOVERNMENT FILM COMMISSIONER

The legislation confers on the NFB the mandate to "advise the Governor in Council in connection with film activities." It then goes on to confer on the NFB's chief executive officer the status of Government Film Commissioner.


As far back as the early 1980s, the authors of documents such as the Applebaum-Hébert Report and *The National Film and Video Policy* began to

cast doubt on the wisdom of treating the Board as the primary federal authority on film and video.

We believe that this designation reflected a period when the NFB was the only part of the Government which had a sophisticated understanding of the film industry. The situation today is clearly different. There are now many organizations and departments – including the CBC, Telefilm and the Department of Canadian Heritage – which have expertise and guidance to offer the Government of Canada.

#### **RECOMMENDATION:**

**The status of Government Film Commissioner as conferred on the NFB's chief executive officer should be abolished and the mandate to advise the Governor in Council on film activities be removed from the Act.**



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#### RESEARCH & TRAINING

Despite a commitment in principle to research and development at the NFB, these activities still officially account for less than 1% of the institution's expenditures. The activities in question include the digitization of pictures and sound, the development of the CinéRobothèque and CinéRoute, the development of computer-aided animation techniques, electronic subtitling and so on – not to mention historic achievements like the co-development of the Imax film technology. In material submitted to the Committee in June, however, the Board indicated that other operations similar to R&D are carried out as part of current production operations. When they are added to the expenditures noted above, the Board's R&D budget totals roughly 1.5% of overall expenditures.

A parallel problem exists with training programs. Through its regular film production activities, the Board provides on-the-job training for young filmmakers – although such training is not formal, supervised or continuous. The Board has also indicated it has not been involved in any major training projects in the developing nations since 1989.

Previous consulting studies have shown that R&D and training are, generally speaking, only an indirect consequence of the NFB's mandate as a

producing organization. The private sector has access to facilities that are much better suited to its training and research needs – INIS, the Canadian Film Centre, National Screen Institute, CESAM and so on. Nevertheless, as we noted earlier, the Board does have an important role to play in providing experienced filmmakers to act as mentors to their less experienced counterparts. Such mentoring should, however, be a part of full-blown professional production activities, not of the classroom and textbook variety.

The NFB corporate culture rests on its role as an integrated producer distributor, not that of a training or research centre. Since these other functions aren't central to the Board's activities, it would make little sense to try to find the resources to strengthen its commitment in these areas.

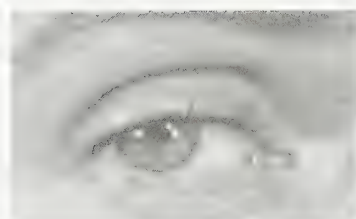
#### **RECOMMENDATION:**

**The NFB should be encouraged to maintain a limited research mandate to be exercised in conjunction with the Board's production and distribution operations. Aside from the informal training that is the natural result of work-related activities, the Board should refrain from allocating resources to formal training programs. The wording of the Act should be amended to take this recommendation into account.**

IV.

# TELEFILM CANADA

THE MANDATE REVIEW COMMITTEE







## I. THE CONTEXT

Among the three institutions we were asked to examine, Telefilm Canada is the least visible and the least understood. However, its significance as a cultural corporation over the past ten years has been nothing short of dramatic. In the next decade, we believe that Telefilm's role must become even more important if there is to be a positive answer to the Information Highway Advisory Council's question as to whether "the fragile Canadian cultural dialogue within our borders" will continue to exist.

Everyone knows what the CBC is, and what it does, because it provides radio and television programs that are listened to or watched by virtually all Canadians. Similarly, the National Film Board's long and distinguished history as a producer of distinctive Canadian films creates a high degree of public consciousness, particularly in those years when it's been nominated for an Academy award. There is no comparable awareness or understanding of Telefilm, because it plays its role in a quiet way as an essential facilitator and supporter of the activities of independent producers, broadcasters and distributors.

In television, for example, 84% of English-speaking viewers in the month of November 1994 watched at least one program that resulted from Telefilm support. For francophone viewers the figure was even higher – 95% in the same month. When Canadians watch programs such as *North of 60*, *E.N.G.*, *Jake and the Kid*, *Million Dollar Babies*, *Theodore Tugboat*, *Les*



*Filles de Caleb*, *La Petite Vie*, *Scoop*, or *Pacha et les Chats*, they are unlikely to know that such programs are dependent on financial assistance from Telefilm Canada unless they read the credits carefully.

Similarly, when Canadians watch feature films like *Whale Music*, *Love and Human Remains*, *Double Happiness*, *Exotica*, *Jésus de Montréal*, *Le Confessionnal*, *Matusalem* or *Eldorado* – whether it's in a theatre or on television – they are far more likely to know who directed the film, or who played the lead roles, than to be aware that without Telefilm they could not have been made.

This lack of profile is inherent in Telefilm's mandate. Created as the Canadian Film Development Corporation in 1968, its *original* role was to foster a feature film industry in Canada and to do so mainly by investing in films with "significant Canadian creative, artistic and technical content."

From 1968 until 1983, the CFDC had limited resources. Its 1982-83 Parliamentary appropriation reached just \$4.5 million. Then, over the next five years, the Corporation was fundamentally transformed. In 1983, its mandate was expanded to include the financing of Canadian television programming, with Telefilm given responsibility for administering the Canadian Broadcast Program Development Fund (the Broadcast Fund). In 1986 and 1988 respectively, its role in feature film was greatly expanded through the creation of the Feature Film Fund and the Feature Film Distribution Fund. Each fund was developed by the Department of Communications and administered by Telefilm, with policy objectives and operating principles established through separate Memoranda of Understanding between the Minister and Telefilm.

The Broadcast Fund was initially allocated \$60 million a year, with \$18 million added through a Supplementary Fund, announced as part of the Government's 1988 broadcasting policy *Canadian Voices, Canadian Choices*. Similarly, the Feature Film Fund was originally allocated \$30 million, with an additional \$11.4 million added in 1988. The same 1988 initiative also saw the Distribution Fund established with funding of \$17 million a year. With these initiatives in place, Telefilm became Canada's second largest cultural institution. Its appropriation increased to \$146 million in 1989-90.

Telefilm also continues to operate both programs established before the creation of the Broadcast Fund and others set up under the Film and Video Policy in May 1984. Since 1990, Telefilm has created new programs itself –

most notably the Commercial Production Fund and the Production Revenue Sharing Program. In 1995-96, an amendment to its legislation allowed the Corporation to initiate a Loan Guarantee Program. Telefilm now administers over 20 programs.

## 1.1 WHY TELEFILM IS NECESSARY

In cinema, decades of frustration lay behind the setting up of the Canadian Film Development Corporation. The Canadian market for feature films is small, linguistically divided, and film distribution systems in Canada have been controlled for decades in Hollywood. In these circumstances, it had not been possible for domestic films to be financed and a Canadian cinema had not developed.

The need for Government to play an active role in developing and maintaining a national cinema is not unique to Canada. In every European country in which a strong indigenous filmmaking tradition exists, Government policies of support are essential. They have been instrumental in the filmmaking careers of directors such as Truffaut, Fellini, Bergman and Fassbinder, whose works are known around the world. Some governments have established funding bodies like Telefilm Canada. France, for example, provides support through the Centre national de la cinématographie. Others have established broadcasting services with a mandate to assist filmmaking – Britain's Channel 4 provides a good example – playing a key role in both financing and broadcasting 12 to 15 British feature films a year, including such productions as *The Madness of King George*, *The Crying Game* and *Four Weddings and a Funeral*. This year, Channel 4 will commit \$34 million to British films, typically putting up at least 50 per cent of a production's budget.

In television, it is equally clear that without Government funding, there would be little Canadian programming available in English in important categories such as drama, children's programming, variety and the performing arts. *It is just 13 years ago* that the CRTC described the situation in these stark terms:

With the exception of the Canadian Broadcasting Corporation, Canadian English-language broadcasters offer audiences virtually no Canadian entertainment in peak viewing periods and next to no Canadian drama – light or serious



– at any time in their schedules (CRTC, Policy Statement on Canadian Television, January 31, 1983.)

The CRTC added that even in the CBC's mid-evening schedule, Canadian entertainment, particularly drama, was under-represented; and the broadcasting system as a whole offered few Canadian programs for children.

French-language television in the early 1980s was quite different, however, with a wide range of Canadian entertainment programs available in the evening, attracting 25% of all entertainment viewing. Canadian drama, mainly in the form of situation comedies and téléromans, was also widely available in peak viewing periods and attracted 22% of all drama viewing. The CBC provided most of the drama, with private broadcasters contributing about two hours a week. However, the Commission noted that in the case of private broadcasters, the changing environment and increasing competition might have a serious effect on their capacity to produce indigenous drama and entertainment programs in the future.

Why there was relatively little Canadian drama and entertainment available on English-language television in the early 1980s is readily understandable. Canadian broadcasters, public and private, could fly South, year after year, to buy American programs for about 5% to 10% of what it cost to produce them in Los Angeles. They could be confident that such programs would be aggressively promoted, and that most of this promotion and publicity would spill across the border. They also knew that most major Canadian advertisers, many of them multinational companies, were predisposed to believe that advertising on highly promoted, big budget American programs represented the most reliable way of selling their products. And finally, they would get the commercial benefit from the simultaneous substitution rule on cable if they broadcast the program in Canada at the same time it was being telecast in the United States.

In drama, the most expensive prime-time American series, produced for \$1 million an hour or more, could be purchased for broadcast in Canada at a cost of about \$50,000 and advertisers were more likely to trust such shows to reach their consumers. A comparable Canadian drama might cost less than its American counterpart, but would still cost at least \$750,000 to produce in Toronto or Vancouver. Therefore, private Canadian broadcasters would be at least \$700,000 an hour worse off if they chose to produce a Canadian drama series, instead of importing one.

The ease with which English-language broadcasters filled their schedule by importing American programs, rather than by producing Canadian ones, differed substantially for French-language broadcasters. First, American programs had to cross the barrier of language, being dubbed into French. This imposed a cost barrier. Second, French-language audiences had a strong, long-established attachment to Quebec-based programs and gave them high ratings, even if they had budgets that were one-third those of American programs. For the first 30 years television existed, French-speaking Canadians were served by a duopoly – the CBC, initially alone, and later the CBC and Télé-Métropole. This more limited competition helped make it possible for these broadcasters to assemble the financing required to respond to the inherent demand for indigenous programming. In the past ten years, however, growing competition, accelerated by increased subscription to cable television, has begun to make the task of financing indigenous French language programming more difficult. The place of imported programming, including American series and feature films, has significantly expanded, but the most popular programs are still Quebec-produced shows.

The Committee intends no criticism of Canadian broadcasters when we point out that they responded to the economic logic that made it more attractive to import foreign programs than to produce far more expensive Canadian programs. It made good business sense in the early 1980s, and the money simply wasn't there to finance a range of comparable Canadian programs.

To illustrate this point, graphically, Canadian broadcasters have advertising revenues approximately one twentieth those of U.S. broadcasters – rather than the one tenth one might expect based on population. Moreover, those far smaller advertising revenues have to finance programs for both French- and English-language networks.

The economic logic that favoured imports over Canadian production through the early 1980s affected the CBC as well as private broadcasters. The CBC television executives understood that they could save a lot of money (and significantly increase their revenues) if they broadcast a wide range of imported American programs. This was particularly true for the CBC's English network.

Having set up the Canadian Film Development Corporation in 1968 to assist in developing Canadian films and a domestic feature film industry, the Government decided to use the same corporation and a similar approach in





1983 to generate a significant increase in Canadian television programs and to build an independent production industry. The Government decided to underwrite the cost and the risks to a degree that would permit Canadian television productions to be financed domestically – and to give Canadian producers and broadcasters a chance to get around the economic disincentives of the marketplace. It was a leap of faith, but it succeeded to a remarkable degree in the following decade.

## 1.2 HOW TELEFILM WORKS

**A**lthough Telefilm works somewhat differently in television than in film, there is a common underlying strategy. To begin with, Telefilm plays a major role in supporting *creative development* in both film and television, providing financing on a shared cost basis to support Canadian scriptwriting and the development of detailed production proposals – including casting, production budgeting, the search for a location, etc. Telefilm covers up to half of such costs and does so generally in the form of an investment repayable when production begins.

In television, Telefilm will help finance production of a Canadian program only if a Canadian broadcaster makes a formal commitment to broadcast it and to pay a reasonable share of the production cost for the right to do so. Recognizing that the resources available to Canadian broadcasters are limited, the amount that must be paid for broadcast rights, usually referred to as the “licence fee,” is generally between 20% and 30% of the cost of production. By comparison, in countries such as Britain or the United States, most, and often almost all, of the cost of production is normally covered by the domestic broadcaster. What now makes such productions possible in Canada is that Telefilm provides up to 49% of the production cost in the form of a high risk investment.

The percentage of the budget Telefilm will pay varies, depending on the extent to which the key creative roles are occupied by Canadians. A ten-point system is used to measure Canadian creative participation in both film and television, with two points awarded for each of the writer and director (one of whom must be Canadian) and one point each for the leading performer, second leading performer, head of the art department, director of photography, music composer and editor. The lead *or* second lead performer

must be Canadian. While not formally part of the point system, the producer must also be Canadian.

Separate qualifying criteria are established for defining “Canadian productions” made under Canada’s co-production treaties with other countries. Under these treaties, productions qualify as domestic programs in both of the countries involved. Treaty co-productions then become eligible for financial assistance, and can be used to meet domestic content regulations, in both countries. Such agreements necessarily involve compromises to try to ensure a balance of cultural and economic benefit to both parties. Of particular significance for Canada is the fact that co-productions with France can qualify as European content, under the content requirements established by the European Community.

The minimum number of points required differs for different purposes. A minimum of six points is the standard requirement used by the CRTC in defining a program as Canadian for purposes of its Canadian content quota. It was also the standard used to define Canadian films and television programs that qualified for the Capital Cost Allowance incentive, established in 1974 to stimulate private investment in Canadian production. The same standard has been adopted for the Film and Video Production Tax Credit introduced by the Federal Government on December 12, 1995 as a replacement for the Capital Cost Allowance.

Because the “six-point” productions usually end up with an American star and a foreign writer, an eight-point minimum has generally been used as the basis for *direct* financial assistance. In its two major funds, Telefilm has usually required eight points – although that is not a formal requirement at present. An eight-point minimum has also been used by the Ontario Film Investment Program (OFIP), created in 1989 to encourage investment in Canadian productions. The Cable Production Fund, initiated recently by the CRTC, also uses an eight-point requirement. Almost all productions in French meet this standard.

Telefilm financing has covered 35% of the budget, on average, for the French-language television programs supported over the past five years. The proportion covered for English-language projects was somewhat smaller – 31% – with Toronto productions requiring on average less support (25%), and English-language productions in other regions requiring more (41%).



Because the licence fees broadcasters pay cover only 20% to 30% of the total cost of production for Broadcast Fund projects, completing production financing is extremely difficult. This is a difficulty that can be solved for Canadian-produced programs made primarily for export to the United States – because the American sale usually covers most of the cost. But this is not possible for the vast majority of distinctively Canadian programs. It is only by combining the broadcaster's licence fee payment, the investment by Telefilm and by provincial agencies, and additional financing from private Canadian investors – almost all of it stimulated by the federal and provincial investment incentives, particularly the Quebec tax credit – that producers can come close to financing their productions.

These sources on average covered about 90% of production budgets for French-language productions (90% of the Canadian portion for co-production) over the past five years – with the remainder cobbled together partly through producers, service providers or key individuals involved in the production agreeing to defer part of their fees. Deferrals represented an average of 6.5% of the production budget.

For English-language television productions, the situation was not very different. Direct Government financing, private investment stimulated by the CCA, and Canadian broadcasters' licence fees covered about 88%. Distributors and exporters were a more significant source of production funding for English-language productions, but still covered only 5% of production financing, compared to 1% for French-language projects. For English-language projects deferrals of fees represented an average of 3.5% of production financing.

The fact that Canadian licence fee payments are normally used to complete production financing greatly reduces Telefilm's chances of recoupment. All of the investors, including Telefilm, generally have to accept the reality that the proceeds from this first major sale (to a television service) go into financing the production, and *not* into recovering their investment. Telefilm's ability to recover its investment has been further reduced because independent producers could only attract private investment under the Capital Cost Allowance incentive if Telefilm allowed those investors to be paid back first, or at least on a preferred basis to Telefilm.

Additional revenues are earned, of course, after the programs are initially telecast in Canada. It's important to remember, however, that programs sup-

ported through the Fund are being sold into an international marketplace dominated by the enormous volume of American production that is available to countries all over the world at a small fraction of its original production cost. As a result, even Canadian programs that are sold to 30 or 40 countries earn amounts that are relatively modest compared to the cost of making the program.

In the case of French-language programs, export potential is particularly limited. The only major foreign French-language market is France and the principal English-language markets – including the Canadian market – are very resistant to dubbed programming.

The criteria that must be met by producers in order to qualify for assistance through the Feature Film Fund also reflect a desire to ensure that any film that is funded will be made available to the viewing public. To gain access to the Fund, therefore, producers must have a commitment from a Canadian distributor that the film will be shown in theatres within a year of production, and must receive a “minimum guarantee” from the distributor, assuring them of some revenue.

However, making sure that Canadian productions will be widely available, and attracting moviegoers, is more difficult in film than it is in television. The situation differs in two fundamental ways. First, while television programs can be made simultaneously available across Canada just by putting them into a national network schedule, there is no similar way to ensure that Canadian films receive wide distribution. The cycle that determines the success of feature films is long and complex. It begins for most Canadian films with festival appearances, a release in a few theatres in major urban markets, reviews and “word-of-mouth” promotion, etc. The degree of success that results in the theatrical market in turn determines how each film will do in the complex chain of distribution outlets through which it later makes its way – including video, pay television, pay-per-view and conventional television.

The second key difference that adversely affects Canadian films is that American controlled distributors dominate the Canadian market – treating it as an extension of the domestic U.S. market. American distributors earn 85% of the box office revenue in Canadian theatres – up from 75% in the early 1980s; and Canadian films tend to get less than 5% of the screen time in Canadian theatres outside Quebec. The resources domestic distributors have



available to promote Canadian films and their ability to arrange effective exhibition are, therefore, more limited. By contrast, Canadian broadcasters are much more dominant in the Canadian television market, and as a result, are much more effective in attracting audiences for Canadian programs.

In these circumstances, Telefilm plays an essential role in sharing with Canadian-controlled film distribution companies the cost and the risk of marketing and distributing Canadian feature films. It also provides assistance so that Canadian films and filmmakers can participate in foreign film festivals, as well as supporting film festivals in Canada.

Canadian films, particularly in English, often fare better on television than in movie theatres or home video. Because Canadian films qualify as “Canadian content programming,” there is an incentive for broadcasters to use them to help meet the CRTC’s minimum Canadian content requirements. The degree to which these requirements stimulate access to production financing and broadcast opportunities for Canadian films depends on the specific conditions of licence that are in place for individual licensees, particularly for pay television or pay-per-view services which depend primarily on feature films.

### 1.3 TELEFILM’S SUCCESS

Over the past dozen years, there has been a phenomenal expansion of the independent television production industry in Canada. It was only after the Broadcast Fund was established in 1983 that a solid financing base existed that could effectively offset the limitations of our domestic market. Between 1987 and 1994, the volume of Canadian production (certified for tax incentive purposes by the Canadian Audio-Visual Certification Office or CAVCO) more than tripled – increasing from \$294 million to \$923 million (Graph 1). Because film and television production is labour intensive, this expansion has generated important economic benefits in employment and investment. Growth has been rapid not just in Ontario and Quebec – but also in other provinces.

Strong companies have emerged, including large publicly traded firms such as Alliance, Atlantis, Nelvana, Cinar and Malofilm. But smaller firms have also become established, such as Les Productions La Fête in Montreal, which produces feature films for children, or Rhombus Media, which has earned an



Graph I  
CERTIFIED CANADIAN PRODUCTIONS  
(\$ millions)



Source: Canadian Audio-Visual Certification Office (CAVCO), November 24, 1995.

international reputation in performing arts programming. A number of innovative companies have emerged in various regions, including Salter Street Films in Halifax, producers of *Codco* and *This Hour Has 22 Minutes*; the Credo Group in Winnipeg, producer of *The Diviners*; Great North in Edmonton, co-producer of the adaptation of W.O. Mitchell's *Jake and the Kid*; Moncton's Productions du Phare Est, producers of *L'Acadie de la mer*; and Citadel Communications in Halifax, co-producers of *Le Secret de Jérôme*.

The Broadcast Fund has also changed the conventional wisdom in the industry about Canadian viewing habits. It's become increasingly clear that quality Canadian programs that are properly funded, promoted and sched-

TELEFILM  
CANADA



uled, will attract significant Canadian audiences. In English television, Canadian programs increased their share of viewing between 7 pm and 11 pm by 30% over the period from 1984-85 to 1988-89. From a much higher base, French-language programs also increased their share of evening viewing by 28% (NGL Consulting, *Evaluation of the Broadcast Fund*, 1991).

However, there continued to be an enormous difference in the overall appeal of Canadian programs on English and French television during that five year period, with Canadian programs attracting only about 25% of total viewing on English television, while the corresponding figure for French television was 75.2%.

From 1988-89 to 1992-93, the viewing time devoted to Canadian programs increased modestly on English television, rising from 25% to 27%. Viewing time devoted to Canadian programs declined somewhat on French television, moving from 75% to 69%. In part, the different patterns of "viewing time devoted to Canadian programs" reflect the fact that 66% of all French-language programs available on our screens are Canadian, while only 36% of all English-language television programs available are domestically produced.

In the remainder of this chapter, we will explore some of the principal reasons for the rapid growth that occurred in viewing time for Canadian programs from 1984-85 to 1988-89, and our inability to make substantial progress since then.

During the 1990s, support through Telefilm has resulted in over 2,500 hours of original Canadian television programs. In addition, Telefilm has been able to successfully achieve the linguistic balance required under the guidelines for the Broadcast Fund, with 37% of its assistance going to French-language programs, and 63% going to English-language programs. Despite earlier difficulties in achieving regional balance, Telefilm was also able over the past five years to successfully stimulate productions for television originating outside the Toronto and Montreal production centres. On average, productions originating outside these centres received 31% of Telefilm support.

For broadcasters, the assistance provided to Canadian programs through the Fund greatly reduced the gap between the cost of acquiring American entertainment program and the cost of licensing Canadian productions. One of the most significant results was that the CRTC was able to become

tougher in demanding that private broadcasters carry Canadian entertainment in prime time.

Independently produced Canadian television programs have also had a great deal of success outside Canada. The *Kids of Degrassi* series, for example, which chronicled the lives of young people from a racially and economically mixed Toronto neighbourhood, won two Emmy awards and was sold to over 40 countries. *Due South*, produced for CTV in Canada, also aired on CBS in the United States. In France, the mini-series *The Boys of St Vincent* captured a 40% audience share on TF1 in 1994-95; the co-production *Jalna*, carried on France 2, obtained a 35% share; while a television movie, *Le billet de loterie*, also carried on France 2, earned a 43% audience share. Even though there is still some uncertainty about most production industry data – more than there should be for an industry with total revenues approaching \$1 billion – Statistics Canada reports that the industry earned export revenues of \$148.8 million in 1993-94.

In fact, many of the productions assisted through the Broadcast Fund have been sold to other countries and a significant number have won prestigious awards. As noted above, this does not mean that the foreign sales covered a large percentage of production costs, but this is the case for television programming throughout most parts of the world (outside the United States).

In feature films, Telefilm has also achieved a number of critical successes. After a sharp decline in Canadian feature film production in the early 1980s, the Feature Film Fund established a steady flow of production activity – resulting in 20 to 26 features a year. In both English and French, Canadian features have been received with critical acclaim. A 1991 Evaluation of the Fund noted a number of important successes during the Fund's first five years: *Le Déclin de l'empire américain*, *Jésus de Montréal*, *I've Heard the Mermaids Singing*, *Life Classes* and *Dead Ringers*.

Canadian cinema has been recognized widely in recent years. Mexico screened 26 feature films, including works by Atom Egoyan, David Cronenberg, Nettie Wild, Sophie Bissonnette, François Girard, Guy Maddin and Micheline Lanctôt. The New York Museum of Modern Art held a retrospective of all of Denys Arcand's films, while the Valladolid International Film Festival in Spain offered a retrospective of works by Jean-Claude Labrecque. Twelve Canadian films were featured as well at the Sundance Film Festival.



## 1.4 CURRENT CHALLENGES

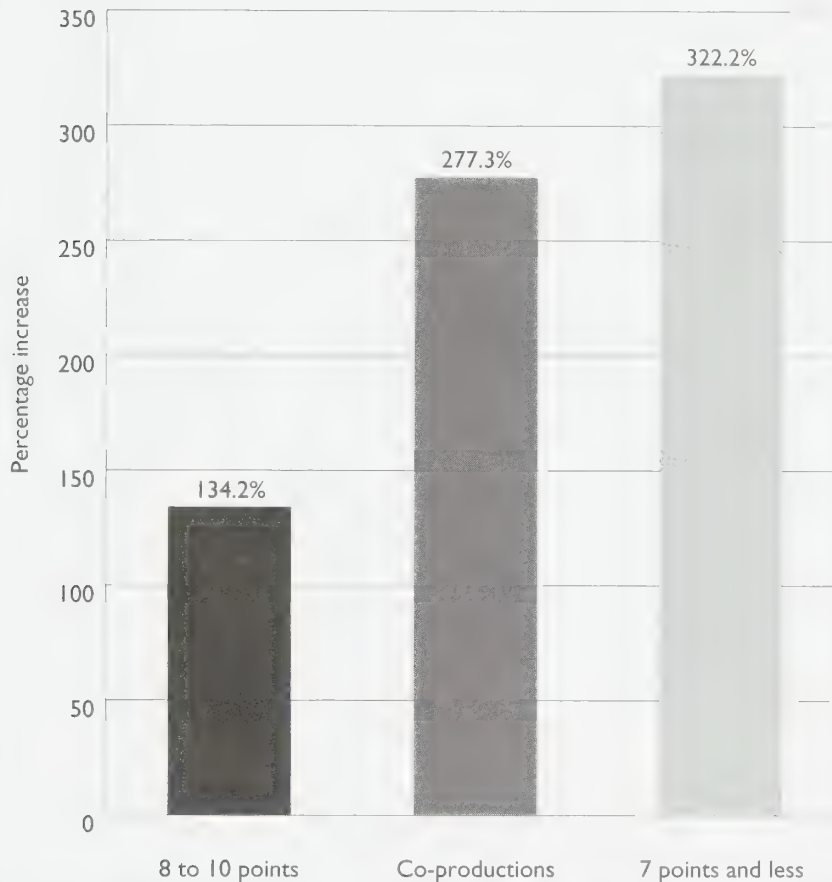
The progress made through the 1980s is, however, threatened. We recognize that this may seem a surprising claim in light of the rapid growth occurring in the independent production industry. The basis for our conclusion, therefore, needs to be explained in some detail.

First, it is important to understand the types of production that have been expanding most rapidly. Graph 2 shows the growth of Canadian independent production on the basis of the number of points for which productions qualify – dividing them into those which earned 6 or 7 points and those that earned 8 or more. It indicates, as well, the growth that has occurred in international co-productions.

Over the period from 1987 to 1994, the aggregate budgets of all productions that qualified for 6 or 7 points increased more than four-fold, from \$76 million in 1987 to \$323 million. In 1994, such projects represented 35% of Canadian production, a percentage that almost certainly increased further in 1995. Much of the increase occurred between 1993 and 1994 when such production more than doubled. This production is a vitally important source of employment for Canadians, but very little of it has much to do with reflecting Canada. Most of it is American-financed production that is made in Canada for the U.S. market. It includes both productions involving American producers, such as Steven Cannell's series *Street Justice* and Warner Brothers' *Kung Fu*, and productions made by Canadian producers primarily for the American market, often through co-ventures with American partners. A recent example of the latter was the Canadian made for television movie *A Family of Cops*, shown on CTV, which starred American actor Charles Bronson as a Milwaukee police chief.

Co-productions have also increased at more than twice the rate of Canadian productions that qualified for 8 points or more. Although there are very fine and successful co-productions such as Claude Fournier's television series *Jalna*, or Robert Lepage's feature film *Le Confessionnal* (a Canada-France-United Kingdom co-production), there has been great pressure in recent years to aim these projects as well at the American market. The results of this pressure have been most notably evident in the number of Canada-France co-productions shot in English. The total budget of international treaty co-productions rose from \$64.5 million in 1987 to \$243 million in

Graph 2  
CERTIFIED CANADIAN PRODUCTIONS  
PERCENTAGE INCREASE  
1987 vs 1994



Sources: Statistics Canada Annual Broadcasting Survey, special data provided by the Department of Canadian Heritage.

1994 – with the Canadian portion at \$118.8 million and the foreign portion at \$124.2 million.

If we had an abundance of distinctively Canadian productions available as well, Canada's success in co-productions and in Canadian "made-for-export" projects would simply be something to celebrate. But, given the much slower growth in "made-for-Canada" productions, it is cause for considerable concern. This is particularly the case when we look in more detail at the trend over the past eight years for productions that qualify for at least 8 points.



Table I  
CERTIFIED PRODUCTIONS  
8 points or more

	1987	1988	1989	1990	1991	1992	1993	1994
\$ millions	152.6	284.6	260.9	310.3	259.6	228.8	378.2	357.3
% change		+87%	-8%	+19%	-16%	-12%	+65%	-6%

Source: Canadian Audio Visual Certification Office

There is no perfect correlation between the minimum requirement for 8 points and genuinely indigenous production. Despite an eight point minimum requirement, the Ontario Film Development Corporation, for example, found that it had to use a variety of additional tests to ensure that it did not fund what the industry calls “service deals.” The industry uses the term “service production” to designate projects in which the Canadian producer plays a decidedly secondary role in a project initiated and controlled by a foreign producer. There are also some 6 and 7 point productions that are identifiably Canadian and are creatively controlled by Canadians. On the whole, however, the 8 to 10 point category identifies those projects made by Canadians primarily for Canadian audiences. This is the major reason that the CRTC set a minimum of eight points as a requirement for projects receiving assistance through the new Cable Production Fund.

Production in this 8 to 10 point category depends heavily on Telefilm Canada funding, and regrettably, government cutbacks are beginning to take their toll. It has become more difficult, once again, to finance production within Canada.

In television, Telefilm has had to come to terms with shrinking resources available to the Broadcast Fund and must either reduce its contribution to the projects it finances... or fund fewer projects. If Telefilm reduces its contribution to individual projects, it's almost inevitable that French-language, regional, and genuinely indigenous Canadian programs will become far more difficult to finance. Telefilm has in fact reduced the proportion of Broadcast Fund production budgets it covers from an average of 32.3% over the past five years to 30% in the most recent year.



Alternatively, if Telefilm funds fewer hours, Canadian broadcasters will be less and less able to meet the CRTC's Canadian content requirements with distinctively Canadian programs. In its advice to our Committee, Telefilm noted that the proliferation of television services was leaving the agency less and less able to meet the demand for production funding, and that many high quality projects are refused each year. The impact differs in French and English television: in French it forces average budgets lower; while in English, it forces greater reliance on projects intended mainly for the American market. **In either case, the result is the gradual erosion of the progress we had made in establishing a stronger Canadian presence in television.**

At the same time, we believe that Canadian cinema is in some peril. Financial assistance through Telefilm's Feature Film Fund has declined from \$31 million in 1988-89 to \$16 million in 1994-95. This decline occurred despite the federal Government's announcement (when it created the Fund in 1986) that it would provide \$30 million annually for feature film production, and then added an \$11.4 million Supplementary Fund two years later. The Government did, in fact, provide these funds to Telefilm, but for reasons that we can't understand (and regret), Telefilm chose to spend only a portion of this money on the Feature Film Fund and the rest on other Telefilm projects.

If one subtracts the 10% Telefilm was expected to use for administration, the amount available annually to assist feature film projects would have been \$37.3 million beginning in 1988-89, plus any recoupment earned by Telefilm from these investments. Since there were no reductions in Telefilm's Parliamentary appropriations, the Feature Fund might reasonably have been expected to stay at that level through 1991-92. Instead, by 1991-92, assistance through the Fund had dropped to \$23 million. By 1994-95, Telefilm's Parliamentary appropriation had been reduced by 16%, from \$146 million to \$122 million, but Telefilm had (somewhat arbitrarily) reduced the Feature Film Fund by 57% from the levels set when the Fund was created.

How this happened is examined in more detail later in this chapter. However, what made it possible for the Feature Film Fund to be cut so dramatically is that the Government didn't pay enough attention to the way that Telefilm was reallocating its internal resources. As a result, resources intended to be used to develop a distinctive Canadian cinema were used to





fund other programs, including new programs initiated by Telefilm itself which were more commercially focused.

As a result of the greatly reduced level of funding through Telefilm, the average budget of the films receiving assistance declined. From 1990-91 to 1994-95, the average budget of French-language films declined from \$2.9 million to \$1.5 million. In English-language cinema, the average production budget dropped from \$4.2 million to \$1.6 million. With average budgets reduced, Canadian films have become less competitive.

Canadian cinema is also affected negatively by the fact that the resources of the Feature Film Distribution Fund are not used as effectively as they could be to support Canadian films that receive Feature Film Fund assistance. Assistance given to Canadian distribution companies through the Distribution Fund is used to finance minimum guarantees provided to, and the marketing of, Canadian and foreign films. Over the five years from 1990-91, Canadian films have received most of the benefit – on average just over 80%. However, over the same period, the specific projects that were supported by the Feature Film Fund received less and less support (in the form of minimum guarantees) from the distributors who got most of the money from the Distribution Fund. By 1994-95, just over a third of the minimum guarantees to Canadian films went to films with Feature Film Fund support – \$5 million out of a total of \$14.6 million. The comparable figures in 1990-91 had been \$13.1 million out of a total of \$19.3 million.

The combination of reduced Feature Film Fund support and even more substantially reduced support through the Distribution Fund has had serious consequences for the development of a culturally distinctive Canadian cinema.

An additional factor that is adversely affecting Canadian films is the limited share of the theatrical market in Canada that is accounted for by Canadian-owned and controlled distributors. For decades, the Hollywood film studios have regarded Canada as no more than an extension of their domestic market. The revenues they earn from Canada flow back to the United States to finance more American films. They have rarely helped finance any Canadian films or used their dominant market position to provide Canadian films with effective exhibition and marketing. If they have been interested in Canadian films, their interest has been largely limited to films that could not easily be identified as Canadian.

Since 1980, U.S. distributors have increased their dominance in the Canadian market, with their share of distributor revenues from the Canadian theatrical market going from 75% to 85%. As our report was being drafted, domestic film distributors were asking for new Government initiatives to help them protect their existing revenues. At present, foreign-based distributors who supply their films to the Canadian market through a Canadian-controlled distribution company are free to set up their own branch offices in Canada and take over the business now handled through Canadian firms. To the extent that this occurs, it will further weaken the domestic distribution industry which has received tens of millions of dollars worth of public support since 1988 through the Distribution Fund. Most important, it will result in reduced opportunities for the Canadian films supported through the Feature Film Fund to receive effective theatrical distribution.

Before moving to an analysis of how Telefilm's mandate and activities might be changed in response to these challenges we should be clear about the assumptions underlying our analysis and recommendations.





## 2. A MANDATE FOR THE FUTURE

A number of standards might be applied in judging Telefilm's performance. It might be viewed as an industrial development agency, a venture capital fund, or a corporation for cultural development. Originally, the CFDC was given both an industrial and a cultural mandate: there was virtually no Canadian film industry at the time and assistance was needed to develop one; at the same time there was a recognition that films receiving support should have significant Canadian creative and artistic content.

Twenty-seven years later, not only is there a powerful independent production industry in Canada, but more and more of the production it carries out no longer requires direct Government assistance. From 1988-89 to 1992-93, an average of 45% of Canadian independent production depended on Telefilm assistance – 57% of French-language productions and 41% of English. Since then, the figure has dropped to about 33%, largely because of the rapid escalation of English-language production activities that get their financing from other sources.

A Canadian dollar trading in the range of 72¢ to 77¢ US has made Canada an attractive base from which to produce programs for the American market. *Staging the Future*, a major 1994 study prepared for Human Resources Development Canada, concluded that:

the low value of the Canadian dollar and the expansion of Canada-US co-venture production appears to be masking a



significant decline in the production of television programs whose primary intended market is Canada and which are primarily financed in Canada. This pattern has significance for French-language production, since it cannot rely upon the United States to be a primary source of production budgets. (pages 12-13)

While Canadian productions can attract a large proportion of their financing from the American market, they do so only if the sale is done before they are produced, with the buyer, usually a U.S. broadcaster, having a substantial influence on the creative content. Such productions are naturally designed to satisfy American tastes and interests. Projects made primarily for Canada are also sold successfully, but they earn substantially less than those that are “pre-sold” – precisely because the U.S. buyer has no opportunity to shape them.

As its funding is reduced, Telefilm may be tempted to channel its investments increasingly into projects designed for export to the United States. In the Committee’s view, *this would be a serious mistake*. There is little need now for Telefilm to play a role in industrial development. Instead, the need has never been greater for all of Telefilm’s resources to be used to assist films and television programs in both English and French that are made primarily for Canada; that reflect the creativity of Canadian script-writers, directors and performers; that explore Canadian realities, tell Canadian stories, and address Canadian interests and needs.

In response to a question from our Committee, Telefilm has emphasized that it is in agreement with this definition of its role, stating that “in accordance with its basic mandate as a cultural agency, it has helped develop a production and distribution industry in Canada that offers the Canadian public films and programs whose quality is constantly improving and which reflect its essence as a nation.” The analysis and recommendations that follow all reflect the Committee’s belief that Telefilm’s mandate for the future should be that of an essential cultural corporation. Only Canadians will fund distinctively Canadian films and television programs. Telefilm is an extraordinarily important instrument for accomplishing that purpose.



**RECOMMENDATION:**

Telefilm Canada has played an important role in developing an indigenous television and film production industry, and it should be maintained and strengthened as an organization that is essential to the cultural life of the country.

**RECOMMENDATION:**

The mandate of Telefilm Canada should emphasize the principle that it is a cultural corporation, using commercial and industrial means to foster Canadian creative expression in television and film, in English and French, and in all regions of the country.





### 3. TELEFILM'S ROLE IN IMPLEMENTING BROADCASTING POLICY

In creating the Broadcast Fund in 1983, the Government drew heavily on the conclusions of the Applebaum-Hébert Committee which had reported the previous year. The committee strongly criticized the way the Canadian production industry had developed up to that date with the Capital Cost Allowance tax incentive as the primary policy instrument. Two major points were made. First the committee argued that cultural goals were not being achieved. French-language productions were receiving little benefit and the resulting English-language productions failed to reflect Canada adequately, frequently disguising their Canadian origin. The second failure the report identified was that the feature films being produced were not made widely available to Canadians.

The Applebaum-Hébert Committee wanted to see the CFDC's role and budget substantially enlarged "so that it (could) take bolder initiatives in financing Canadian film and video productions on the basis of their cultural value and professional quality." The committee emphasized equally the need to ensure that Canadians would have access to the strengthened cultural content that resulted.

The advice that the CFDC should be strengthened, that cultural goals should be primary, and that the resulting productions should be made widely available to Canadians, was reflected in the new initiatives taken by the Government in 1983. The CFDC, soon to be known as Telefilm Canada, was asked to administer the newly-created Broadcast Fund "to achieve the cul-



tural goals of the Government of Canada with respect to Canadian broadcast programming." Support was to go only to productions made under Canadian creative control (with the exception of treaty co-productions), and qualifying programs, other than those for children, were to be broadcast between 7 pm and 11 pm. Only programs in the categories of drama, variety or children's could qualify for assistance, and at least a third of the support provided was to go to French-language programs. Documentaries became eligible as well in 1986. All these requirements were set out in a Memorandum of Understanding between the Minister of Communications and Telefilm. When an additional \$18 million was added to the \$60 million a year Fund, the incremental resources were to be split 50/50 between English and French, resulting in an overall balance of 37% French and 63% English.

Taking to heart the need for Canadians to have access to the resulting programs, the Government stressed the importance of the new CRTC policy on Canadian content regulation that had been announced earlier that year. Under the CRTC's January 1983 policy, private broadcasters would be required to spend money on, and broadcast specific categories of production, such as drama. This new regulatory strategy had the goal of ensuring that additional Canadian entertainment programs would be broadcast by private broadcasters. The CBC as well had agreed to acquire half of its programs outside the news, public affairs and sports categories from independent producers. Without these other initiatives to complement the financial support provided through the Broadcast Fund, this bold experiment might not have succeeded.

### 3.1 AN APPRAISAL

There is no doubt that Telefilm Canada has been successful in meeting the guidelines established for the Broadcast Fund. Programs funded have been broadcast in prime time and large numbers of Canadians have watched them. Just over 70% of funding has gone into drama over the past five years, 15% and 11% respectively into children's programs and documentaries. Less support has gone to variety programs because Telefilm found that they had less need of public funding. Even without Telefilm's support, it has proved possible to finance a substantial array of variety programs, particularly in French television.

The Fund has been used differently in English than in French. In English, the average budget per hour of production is much higher – \$716,000 over the past five years compared to \$272,000 in French. As a consequence of the higher average cost, fewer hours of programming have been produced in English than in French – 985 compared to 1,548.

Conventional Canadian broadcasters have contributed the most over the past five years to financing productions supported through the Broadcast Fund, with the CBC/SRC contributing 52% of the total and the conventional private broadcasters (CTV, Global, TVA, TQS and independent stations) providing 32%. Provincial educational television services added 6%. Specialty services, particularly Canal Famille and YTV, provided the remaining 10% of Canadian broadcaster funding.

The impact the Broadcast Fund has at its present level of financing should, however, be kept in perspective. Despite the success achieved, foreign programs in the categories the Fund assists still greatly outnumber Canadian, particularly in English-language television. In 1994-95, \$22 million in assistance provided by Telefilm resulted in 289 hours of French-language programming – including 147 hours of drama, 105 hours of children's programs, 29 hours of documentaries and 8 hours of variety programming. These program hours are spread over three conventional broadcasting services, plus Radio-Québec and a growing number of specialty and pay television services. Similarly the \$37 million committed to English-language programs contributed to 191 hours, including 93 hours of drama, 56 of children's and 31 and 11 hours respectively of documentary and variety programs. In other words, it's improved the situation, but in English speaking Canada the vast majority of the programming available to most viewers is still foreign.

We're encouraged by the fact that the Fund stimulated broadcasters to commit greater resources to independent Canadian production, but, regrettably, the amounts involved remain limited. For the CBC's English and French networks, the commitment to Broadcast Fund projects, while higher than for private broadcasters, still represented just \$31 million in 1994-95, out of a total CBC television programming expenditure of \$688 million, or less than 5%.

Similarly, although they had total revenues of \$1.5 billion in 1993-94, English and French conventional private broadcasters combined, committed





just \$20.3 million to Broadcast Fund projects in 1993-94. For 1994-95, their financial involvement dropped to \$13.3 million. A reasonable estimate would be that in 1994-95, less than 2% of total program spending by private broadcasters went to Broadcast Fund projects.

As Table 2 indicates, private broadcasters spent a total of \$47.6 million on Canadian independent production activities in drama, music and variety in 1993-94 and considerably less than half of that was spent on Broadcast Fund projects. As an example, private broadcasters (CTV and its affiliates, Global and independent stations) put \$13 million into Broadcast Fund drama productions in 1993-94, but committed another \$18.7 million to independent producers for non Broadcast Fund drama projects. This does not mean that they would not have shown more projects supported by the Broadcast Fund, had additional Broadcast Fund resources been available. It simply means that given the limited number of projects Telefilm can support, private English-language broadcasters are involved to a greater degree with Canadian programs made without Telefilm assistance – most of them financed instead in the United States.

Table 2  
EXPENDITURE BY PRIVATE CANADIAN TV BROADCASTERS  
ON CANADIAN AND FOREIGN PROGRAMS, 1994  
(\$ millions)

	Canadian independent production	Other Canadian	Total Canadian	Foreign	Total
Drama	37.3	14.8	52.1	193.3	245.4
Music and variety	10.3	15.8	26.1	2.9	29.0
News and information	5.4	267.6	273.0	15.7	288.7
Sports	3.8	74.4	78.2	10.8	89.0
Game shows	5.1	4.0	9.1	11.2	20.3
Human interest	3.9	28.9	32.8	21.4	54.2
<b>Total</b>	<b>65.8</b>	<b>405.5</b>	<b>471.3</b>	<b>255.3</b>	<b>726.6</b>

Sources: Statistics Canada Annual Broadcasting Survey, special data provided by the Department of Canadian Heritage. Note: "Other Canadian" production includes in-house production, programs produced by an affiliated production company, programs acquired from other stations, network programs, and programs from other sources (excluding independent productions).

One of the goals of the Broadcast Fund was to assist Canadian broadcasters to offer more attractive and more indigenous Canadian programming in peak viewing periods. An obvious way to measure success is whether the

level of viewing time devoted to Canadian programs in the 7 pm to 11 pm time period increased on the various stations and networks affected.

Table 3  
VIEWING TIME DEVOTED TO CANADIAN  
AND FOREIGN PROGRAMS  
7 pm to 11 pm

Station Category	1984-85		1992-93	
<b>English</b>	<b>Canadian</b>	<b>Foreign</b>	<b>Canadian</b>	<b>Foreign</b>
CBC	62.0%	38.0%	81.7%	18.3%
CTV	20.8%	79.2%	17.3%	82.7%
Global	7.9%	92.1%	17.4%	82.6%
Independent	16.4%	83.6%	17.9%	82.1%
<b>French</b>				
SRC	72.1%	27.9%	90.9%	9.1%
TVA	46.2%	53.8%	66.3%	33.7%
TQS	54.8%	45.2%	47.6%	52.4%

Source: CBC Research (AC Nielsen). For TQS, the first year data shown are for 1986-87.

Both the English and French-language CBC networks substantially increased their share of peak-time viewing devoted to Canadian programs – to 81.7% for the English service, and 90.9% for the French service. Although not the most important factor, such comparisons should keep in mind that the CBC airs its major network news and public affairs programs during the 7 pm to 11 pm time period, while English language private broadcasters provide late evening newscasts at 11 pm (Table 3).

By comparison, the level of prime time viewing devoted to Canadian programs remains astonishingly low in private English television, with viewing devoted to Canadian programs on CTV, Global and independent stations at just 17% to 18% in 1992-93. In French-language private television, the level of viewing time devoted to Canadian programs is much higher on TVA and Quatre Saisons than for private English television. It increased on TVA from 46.2% to 66.3%, and decreased slightly for Quatre Saisons – from 54.8% to 47.6%.

From the perspective of the Broadcast Fund, what has happened to the viewing time devoted to Canadian programs in the categories Telefilm assists is of particular importance. The results have been most impressive in drama. Documentary viewing is not reported separately, while children's program-

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ming includes productions of many types and is usually broadcast outside this time period.

Table 4  
PERCENTAGE OF PEAK TIME VIEWING FOR  
CANADIAN DRAMA AND VARIETY  
7 pm to 11 pm

Station Category	Drama		Variety	
<b>English</b>	<b>1984-85</b>	<b>1992-93</b>	<b>1984-85</b>	<b>1992-93</b>
CBC	7.1%	11.0%	7.3%	5.8%
CTV	2.5%	7.0%	5.1%	0.9%
Global	0.7%	7.0%	2.3%	1.2%
Independent	0.6%	6.2%	1.9%	2.4%
<b>French</b>				
SRC	18.8%	24.5%	14.0%	19.6%
TVA	15.9%	19.4%	10.5%	34.1%
TQS	2.5%	8.5%	20.8%	15.0%

Source: CBC Research (AC Nielsen)

All the English language broadcasters generated increased viewing time devoted to Canadian drama programs over this period, with the average rising from 2.7% to 7.8%. The share of peak time viewing attracted to Canadian variety programs declined slightly, from an average of 4.1% to 2.6%.

French language broadcasters also increased the viewing time devoted to Canadian drama, with the average level for the three French language services going up from 12.4% to 17.5%. Variety programs remain far more popular in French television than in English and attracted on average 22.9% of peak time viewing to the three services in 1992-93, up from 15.1% in 1984-85.

Private broadcasters have clearly been willing to participate. In fact, they have always taken full advantage of the opportunities to license Broadcast Fund productions, and have consistently provided the level of licence fee payments that Telefilm requires. The purpose of putting the Fund's impact into the context of the Canadian broadcasting system as a whole is to reinforce the fact that there are limited resources available to finance original Canadian production; that there is a significant shortage of Canadian programming available to Canadian audiences ( particularly in the program categories sup-

ported by the Broadcast Fund); and that the level of viewing time devoted to Canadian programs, particularly in English speaking Canada, is still very modest. The Fund is one of the best ways we have to create something special on Canadian television – imaginative, high quality, distinctively Canadian programming, designed primarily for domestic audiences.

If the limited amount of Canadian programming (and particularly drama) on our television screens... and the disproportionate amount of time that Canadians devote to watching American programs is not seen as a cultural crisis, it is only because English speaking Canadians have grown too accustomed to this situation. It is not now, and never has been, a case of Canadian programs being provided and rejected by domestic audiences. The experience of the Broadcast Fund has proven that Canadian programs (on conventional broadcasters) are watched and enjoyed by Canadian viewers in direct proportion to their availability on our screens. The problem remains that of financing our own programs, and making sure that they are broadcast in peak viewing times. Telefilm has made an important beginning in this regard, but the challenge continues to be daunting.

### 3.2 THE GOALS OF THE FUND

Despite the statement in the Broadcast Fund's MOU that it should be implemented to achieve the cultural goals of the Government, this general statement has not proven adequate. In studies of the Broadcast Fund over the past decade, concerns have been expressed that the guidelines should provide a clearer mandate. For example, although the 1991 Evaluation of the Fund concluded that it had been generally successful, it expressed concern about productions supported through the Fund being tailored to American audiences, noting "(American) cultural references and creative American participation in Canadian productions is regarded as an asset in terms of marketability of a Canadian production; as a result there may often be a diminishment of Canadian creative control, which again can be in conflict with Fund objectives." (*Evaluation of the Canadian Broadcast Development Fund*, NGL Consulting Ltd., in collaboration with Michel Houle and CBC Research, 1991, page viii.)

In the case of French-language production, the same study observed an increase in the demand for independent production simultaneous with a



downturn in the financial performance of private French-language broadcasters; and it went on to note that "private French-language broadcasters, therefore, are moving toward more modest productions of a type and budget largely incompatible with Fund objectives." This concern regarding the French-language sector was reinforced by the 1991 Report on the Economic Status of Television (the Girard-Peters Report) which reported French-language broadcasters' concerns at the time that they could not afford to participate in the Fund because they needed low-cost volume (p. 126).

The Committee notes that the reasons for concern regarding French-language programs have substantially increased since 1991. As Table 5 indicates the resources committed by Quebec broadcasters to all independently produced *drama* fell by 61% between 1991 and 1994.

Table 5 EXPENDITURE BY PRIVATE CANADIAN TV BROADCASTERS ON INDEPENDENT PRODUCTION (\$ millions)				
<b>Quebec</b>				
	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>
Drama	14.4	7.0	7.2	5.6
Music and variety	8.0	3.9	6.0	6.4
News and information	6.5	1.2	1.6	2.3
Sports	3.2	3.7	2.5	2.8
Game shows	1.9	1.3	2.6	4.7
Human interest	4.3	0.8	1.0	2.3
<b>Total</b>	<b>38.3</b>	<b>17.9</b>	<b>20.9</b>	<b>24.1</b>
<b>Other provinces</b>				
	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>
Drama	17.2	29.3	30.1	31.7
Music and variety	1.1	1.1	1.0	3.9
News and information	1.9	3.7	3.2	3.1
Sports	11.4	5.8	0.5	0.8
Game shows	0.3	0.4	0.2	0.4
Human interest	1.9	2.8	2.0	1.6
<b>Total</b>	<b>33.8</b>	<b>43.1</b>	<b>37.0</b>	<b>41.5</b>
Sources: Statistics Canada Annual Broadcasting Survey, special data provided by the Department of Canadian Heritage.				

There is also compelling evidence that the pressure to tailor productions to the American market and the temptation on the part of English-language



broadcasters to fill their schedules with productions made for export have increased. The 1991 Girard-Peters report stated that:

to meet CRTC requirements, English-language television broadcasters have a financial incentive to purchase 'six-pointers' – programs that garner only six points on Telefilm's scale of ten. They are increasingly available and can be procured at about the same cost per play as US programs. Broadcasters may prefer them to Fund-assisted programs that have more stringent Canadian content requirements and may cost two or three times more.

As the statistical data presented earlier indicates, the availability of such productions has expanded quickly since that time. At the same time, the environment in which private broadcasters function has become far more competitive.

In this overall context, there is a need to state the objectives of the Fund more explicitly. Vague terms such as "cultural policy," "Canadian programs," or "Canadian content" are inadequate to define a cultural mandate. "Canadian content" and "Canadian programming" are now interpreted so broadly that they frequently include productions designed primarily for American audiences. It is an indication of their remarkable business acumen and professional production skills that Canadian producers have been able to produce television programming for sale to the United States, but the benefits are economic and industrial, not cultural. Moreover, to the extent that productions made for the American market replace programming that would have been made for a Canadian audience, or take up public financing that would otherwise have gone to programs made primarily for domestic consumption, the result is damaging.

A number of more specific cultural criteria should, therefore, be included in the guidelines for the Broadcast Fund. These criteria should apply to all projects except those made under the provisions of Canada's co-production treaties with foreign governments. The first criterion is that projects should be intended primarily for Canadian audiences.

The guidelines should also require that qualifying productions achieve at least eight points on the ten point scale used to indicate the degree of





involvement by Canadians in key creative roles in a production. Finally, as in the existing MOU for the Feature Film Fund, the provisions of the revised MOU should direct Telefilm to focus assistance on “culturally relevant” productions and to administer the Fund “under such criteria as to encourage and support those productions which have the greatest levels of Canadian creative elements, Canadian stories and themes.”

#### **RECOMMENDATION:**

**The cultural goals of the Broadcast Fund should be stated more precisely in a revised Memorandum of Understanding with the Minister of Canadian Heritage. The revised MOU should specify that qualifying productions should be produced primarily for domestic audiences; that they should achieve a minimum of eight points in content certification under the Income Tax Act; and that priority should be given to productions with the strongest Canadian creative elements, and the most compelling Canadian themes and stories.**

Other provisions already in the Memorandum of Understanding should be continued. It is essential to ensure an appropriate balance of assistance to French- and English-language projects. Similarly, Telefilm should be asked to foster program production in all regions of Canada that reflects the distinctive regional differences in the culture of the country.

#### **RECOMMENDATION:**

**The Broadcast Fund MOU should specify that Telefilm Canada will seek an appropriate balance between its support to English and French-language projects, and will foster production in all regions of the country.**

### **3.3 QUALIFYING TYPES OF PROGRAMS**

The existing MOU specifies that support may be advanced only to productions in the categories of drama, variety, children's programming and documentaries. The current Memorandum of Understanding defines “drama” to include “feature films, situation comedies, adventures, performing arts

(whether dance, opera or theatre) and docu-dramas.” Recently the *Report of the Group of Experts on Alternative Programming Services* (the Grant Report), identified “culture and the arts” as an area of programming that should be of particular concern. While the conclusion reached in the Grant Report is that the CBC must be primarily responsible for the provision of such programming, the Broadcast Fund should provide significant assistance to these kinds of initiatives.

So that the qualifying range of productions may be better understood, the term “variety programming” should be deleted from the definition of eligible productions. Productions in the performing arts should be included as a separate category, with “performing arts” defined to include the categories of dance, opera, comedy, theatre, and classical and popular music.

#### **RECOMMENDATION:**

**Broadcast Fund support should be available for under-represented categories of production – namely drama, children’s programming, documentaries, and the performing arts (defined to include dance, opera, comedy, theatre, and both classical and contemporary music).**

### **3.4 REQUIRED COMMITMENT TO BROADCAST**

To ensure that programs assisted through the Broadcast Fund are made available to Canadians at hours when they are most likely to be able to watch, qualifying productions now require a commitment from a conventional or a “basic service” broadcaster to show them between 7 pm and 11 pm, within two years of their production. The only exception is for children’s programs.

We agree with the reasoning behind this rule. However, we would propose a revision to reflect the fact that it is now more difficult to identify services that qualify under the “basic service” broadcaster definition.

Specialty services may want, on occasion, to participate in Broadcast Fund projects in the categories described above. We believe that it is the quality, the complexity and the production value of the program or series being proposed that should determine whether it qualifies; and the rules should not



disqualify or discourage any widely available Canadian specialty service from being involved with the Fund.

Therefore, the guidelines should be revised to make it clear that qualifying productions are those made for any service that receives wide distribution in cable systems or other distribution undertakings. This would continue to preclude strictly discretionary services, but would include services licensed by the CRTC for mandatory carriage on basic cable, or on an "optional-to-basic" basis, or which have "dual status" or "modified dual status."\*

#### **RECOMMENDATION:**

**Broadcast Fund priority should be given to innovative, complex and high quality productions, which a qualifying broadcaster has agreed to telecast between 7 pm and 11 pm. Children's programming would be an exception to the prime time rule. The definition of a qualifying broadcaster should be expanded to include services widely available on cable (rather than just those networks and stations carried on the basic cable service).**

### **3.5 QUALIFYING PRODUCERS**

When the Broadcast Fund was created, it represented a central element in a strategy to develop a Canadian production industry separate from the broadcasting industry. The ultimate objectives of doing so were to diversify the sources of ideas and creativity beyond those within the small number of existing television networks; to strengthen the quality of Canadian programming; to encourage the development of new talent; and to offer new opportunities to writers, directors, performers and other talented individuals not employed by the broadcasters.

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\* "Optional-to-basic" is the regulatory category the CRTC used between 1987 and 1993 to designate Canadian specialty services that cable companies had to carry on basic cable service – unless they chose not to carry them at all. Although no legal obligation exists, cable companies have felt obligated to carry these services. All services licensed on this basis were re-categorized as having "dual status" in 1993. "Dual status" designates specialty services that may be carried either as part of basic cable or, if they agree, as part of a discretionary tier. Typically, specialty services agree to be discretionary if they will be no worse off financially, and will still reach the vast majority of cable subscribers as part of a low-cost tier, often referred to as "extended basic." The CRTC's June 1994 licensing of additional specialty services added the category "modified basic service," which requires carriage on a discretionary basis unless the cable company and the specialty service agree to carriage on basic service.

The existing guidelines state that “Telefilm shall use the Fund only to assist eligible productions made by Canadian private-sector producers who are not broadcasters.” The Committee is convinced that there should be a strong component of the production industry that is not owned and controlled by, or affiliated with, licensed broadcasters so that there will continue to be a separate voice for the interests of Canadian production.

Since the Broadcast Fund guidelines were established, a number of major independent production companies have entered broadcasting (a trend towards greater integration that’s happening in most industrial countries). The question is whether they should still qualify for Telefilm assistance, and, if so, whether the production arms of broadcasting companies should also be given access. Telefilm has taken the position that the Memorandum of Understanding is not sufficiently clear in its definition of “producers who are not broadcasters” and has adopted an approach intended to avoid conflicts of interest. Access to the Fund is permitted as long as a broadcaster not affiliated by ownership with the applicant provides the commitment to broadcast the program.

The Committee believes that the Department of Canadian Heritage should clarify its intention through the revised Memorandum of Understanding. The only approaches that seem acceptable are either to completely preclude access to the Broadcast Fund by production companies that are affiliated by ownership with licensed broadcasting services, or to prohibit “self-dealing.” The difficulty inherent in a complete prohibition is that it would end access to the Fund for highly creative production companies that have for many years enjoyed such access. However, if there is not to be a prohibition, then the production arms of broadcasters must be treated the same way.

#### **RECOMMENDATION:**

**The Broadcast Fund MOU should be amended to deal with the issue of “access to the fund” by producers who are affiliated with companies holding broadcast licences. “Self dealing” should be prohibited by disallowing access for projects to be broadcast by an affiliated broadcaster in their first commercial cycle of exhibition.**

In the past, Telefilm adopted policies requiring broadcasters to pay licence fees that covered a minimum percentage of production budgets. This



requirement was, and still is, necessary and appropriate. However, the current policy guidelines don't go beyond this requirement and provide very little incentive for broadcasters to also invest in the projects – even though the investment would be in addition to the payment of the required licence fee.

As long as Telefilm is making its selection of Broadcast Fund projects based on the cultural criteria we recommend, we see valid reasons for Telefilm encouraging investment by broadcasters. While the specific financing needs of individual productions differ, there will be productions, not necessarily a large number, in which investment financing from the broadcaster involved is required if the program is to be made. As long as the independent producer involved is not affiliated with the broadcaster, and the broadcaster is neither playing a producer role in the project nor exercising distribution rights, there are certainly benefits to be derived from additional cash investment above the required licence fee.

#### **RECOMMENDATION:**

**Broadcasters should be encouraged to invest in projects for which they have paid an appropriate licence fee, as long as the project is produced by a non-affiliated independent producer. In those situations, the broadcaster should be able to share the copyright and revenues in proportion to their investment.**

The Memorandum of Understanding should also continue to underline the need for a strong Canadian-owned and controlled industry, both in production and distribution. With the exception of international treaty co-productions, qualifying productions should be made under Canadian ownership and Canadian executive and creative control, and eligible productions should be distributed in Canada by a Canadian-controlled distribution company.

The definition of Canadian ownership used by Telefilm should be consistent with the definition used in other cultural industries. The current requirement would allow foreign companies in the entertainment industry to acquire 49% of the shares of Canadian firms, and still qualify for substantial public financial assistance.

By comparison, the provisions of Bill C-58 – the legislation that allows the cost of advertising in radio, television, newspapers and magazines to be



deducted as a business expense only if they are Canadian-owned – requires a minimum of 75% Canadian ownership. The 75% standard is also used as a qualifying requirement for access to book publishing industry support and concessionary postal rates for Canadian magazines.

A sound model for assessing the ownership and control of businesses is the Order-in-Council to the CRTC which governs the Commission's decisions on those qualified to hold broadcasting licences. As a result, we recommend that the Memorandum of Understanding require, in addition to *de facto* Canadian control, that at least 75% of the equity in any qualifying independent production company should be held by Canadians. Precise guidelines defining the required test of *de facto* control should be included in the MOU, using as a model the Order-in-Council to the CRTC.

Unless there is a separate Canadian-controlled production and distribution industry that operates, as our broadcasting industry does, on an East-West axis, the instruments required to develop and express our own culture in these areas will not exist. Non-Canadian companies not only are unlikely to carry out this task for us in the film and television industry, but a number of them have campaigned vigorously for Canada to dismantle those measures that it has taken to support the expression and development of its own culture.

#### **RECOMMENDATION:**

**The Broadcast Fund should only be accessible to Canadian independent production companies in which Canadians hold at least 75% of the equity, and have *de facto* control.**



### **3.6 THE BROADCAST FUND & THE CBC**

As part of the 1983 broadcasting strategy, the CBC agreed to acquire half of its programming in categories other than news, public affairs and sports from independent producers. The producers in turn could qualify for financial assistance from the Broadcast Fund. As a result, the CBC's reliance on independent Canadian producers as a source of its programming has been substantially increased.



At present, productions for private and educational broadcasters are assured of 50% of the assistance provided through the Fund, while productions for the CBC projects may receive "up to 50%," but the specific percentage is not guaranteed. Because the CBC is the most important single source of indigenous programming in the categories Telefilm assists, and relies increasingly on independent productions assisted through the Fund, we believe that productions that are to be broadcast by the CBC should be assured of receiving a guaranteed 50% of Broadcast Fund resources, averaged over a three year period.

In our earlier chapter on the CBC, we recommended that the Corporation's public service mandate be strengthened and that the CBC focus its efforts on providing a distinctively Canadian program service. The result may be that independent productions designed for the CBC will have less potential to recoup their investment. In selecting which CBC projects to support, Telefilm should be very sensitive to the CBC's special responsibilities to develop programming almost exclusively for a domestic audience (and not for an export audience).

**RECOMMENDATION:**

**The Broadcast Fund's MOU should be revised so that independent production licensed by the CBC or SRC receives 50% of the available annual funding, averaged over a three-year period.**

**RECOMMENDATION:**

**The Broadcast Fund's MOU should recognize explicitly the CBC's special responsibility to telecast distinctively Canadian programming, and its responsibility to develop its production almost exclusively for a domestic audience (rather than for export).**

### 3.7 CLARIFYING TELEFILM'S ROLE

The Committee endorses the need for Telefilm to choose which projects it will fund. This inevitably requires that Telefilm, as a cultural organization, make decisions regarding the creative content of films and television pro-

grams. Nevertheless, Telefilm is not a producer or a co-producer of the projects it funds, but is simply a source of public funding.

As we went across the country, we heard complaints that Telefilm sometimes tries to shape the creative content of productions, performing what producers refer to as Telefilm's "studio role." These complaints may concern Telefilm's attempts on occasion to influence scripts, the choice of key creative staff (director, performers, editor, etc.), or other aspects of a production that are normally determined by the producers, creators and Canadian purchasers of productions. We believe that this goes beyond what Telefilm needs to do, or has a right to do in performing its mandate as a funding corporation.

However, Telefilm is by intent a cultural development organization, and it is often important that it makes its advice and support available, and *that it actively seeks to encourage new and emerging talent*. The essential difference is that Telefilm should play this role only where its advice and support are needed. It should offer assistance where it believes it may be helpful, but provide it only where it is welcomed.

#### **RECOMMENDATION:**

**Telefilm Canada should resist the temptation to operate like a "studio," and should limit its creative involvement to selecting those projects that will be funded. In other words, Telefilm should provide funding and business advice, but should not get actively involved in trying to influence the writing, performing or production elements of projects under consideration.**

#### **RECOMMENDATION:**

**The Broadcast Fund should make a special effort to nurture new and emerging creative talent, and should continue to provide active support to small and medium sized companies across Canada.**





#### 4. TELEFILM'S ROLE IN CANADIAN CINEMA

Earlier, we stated that Canadian cinema is in some peril, despite increasing critical acclaim for Canadian films and filmmakers. We identified, as well, the impact that the current weakness and vulnerability of our domestic film distributors has on the marketing and distribution of Canadian films. Financial assistance to production through the Feature Film Fund has declined sharply, and the Distribution Fund has not been effective in increasing Canadian control over distribution activities. Before looking at Telefilm's two principal Funds, the fluctuations in recent film policy should be summarized in order to be clear about the context in which we examined Telefilm's involvement.

Between 1968 and 1982, Telefilm's exclusive mandate was to assist in the development of a feature film industry in Canada, and to support films with significant Canadian creative content. This objective was also pursued by the Government through the Capital Cost Allowance incentive for Canadian feature films in the *Income Tax Act*. In the late 1970s, the CCA stimulated large amounts of private investment, but not more than five per cent of it went into French-language production. Little stimulus was provided to production outside Ontario and Quebec, and, with notable exceptions, the content of most of the resulting films had little to do with Canada. The films produced did not receive effective distribution or marketing, and their failure to produce a financial return for investors led to a sharp decline in production in the early 1980s.



Between 1982 and 1986, Canadian independent production shifted from feature films into television. But the dream of developing Canadian cinema was not forgotten. Two major reports assessed the reasons for the earlier failure: the 1983 *Report of the Task Force on Film Distribution, Exhibition and Marketing* (the Cohen Report), and the 1985 *Report of the Film Industry Task Force* (the Raymond-Roth Report). While its scope was broader, the 1982 report of the Applebaum-Hébert Committee also addressed the issue.

The Applebaum-Hébert Committee concluded that "a very serious distribution bottleneck faces our film and video producers," (Applebaum-Hébert, *Report of the Cultural Policy Review Committee*, 1982, p. 259), and that the problem was greatest in the theatrical market. The report recommended that the CFDC be given substantially greater resources, and advocated strong action to ensure that Canadian films had access to Canadian screens. The committee concluded that "Canadian filmmakers' best hope lies in allying themselves with a Canadian controlled, strong distribution industry." In its subsequent report on the film industry specifically, the Cohen Task Force recommended legislative changes to strengthen Canadian-owned and controlled film distribution companies.

In response, the Government announced *The National Film and Video Policy* in May 1984. Support for the promotion and marketing of Canadian feature films was increased. Access to screens was identified as "the last hurdle" to the development of Canadian cinema. The statement acknowledged that "in Canada ... the gateway to audiences is largely controlled by US-owned distributors"; that "it is the rare exception ... for these foreign-owned distributors to distribute a Canadian feature in Canada, let alone abroad"; and that "these companies tend to view Canada as a component of the larger North-American market, and only handle features which will have commercial appeal in that larger market – a perspective which works against Canadian features, such as *Who Has Seen the Wind* and *The Tin Flute*."

The 1985 Raymond-Roth Task Force Report placed the same emphasis on the need for an integrated policy. The report recommended that all distribution of films and videos be done by Canadian-owned and controlled companies; that tax incentives and other support mechanisms be used to encourage investment; and that a Feature Film Fund be created with an annual budget of \$60 million.

The Department of Communications began to frame a stronger policy based on the three reports. The Feature Film Fund was created in 1986, with an initial budget of \$30 million, to invest in high-quality, culturally-relevant, Canadian theatrical feature films. In September 1988, \$11.4 million was added, with the supplementary resources directed particularly to French-language production and to features originating outside Ontario and Quebec. Telefilm was asked to administer the Fund to encourage and support those productions which had the greatest levels of Canadian creative elements, Canadian stories and themes.

In 1986, the Government also prepared draft film distribution legislation along the lines recommended by the Cohen Task Force, and announced its intention to proceed in February 1987. However, in the context of Canada-US trade negotiations, a new bill consistent with the *Canada-US Free Trade Agreement* was introduced in the House of Commons in June 1988. It was not passed prior to the 1988 election and was never re-introduced, primarily because it lacked film industry support.

Because the draft 1988 legislation had not given preference to Canadian distributors – as the Cohen and Raymond-Roth reports had recommended – the Government decided to create a new Feature Film Distribution Fund. The Distribution Fund, administered by Telefilm under the provisions of a third Memorandum of Understanding, was to provide \$17 million a year to assist Canadian distributors to acquire rights to Canadian and foreign films; augment the risk capital available to them; assist them in marketing and promoting Canadian and foreign films; and, as a result, help the Canadian-controlled distributors secure an increased share of Canadian market revenues for recycling into new Canadian productions.

The Mandate Review Committee's examination of Telefilm's mandate for the operation of both the Feature Film and Feature Film Distribution funds is substantially conditioned by the fact that no action has been taken to use the legislative and regulatory powers of Government to strengthen Canadian control of film distribution and enhance the distribution and marketing of Canadian films. The success of the Broadcast Fund was made possible by effective action to ensure that the resulting productions were made widely available to Canadians. The absence of comparable action in the case of Canadian feature films, we believe, has significantly compromised the potential for either of the feature film funds to be fully effective.





An important distinction must be drawn between Quebec and the rest of Canada. The protection afforded by the French-language, combined with distribution legislation passed by the Quebec Government in 1983, has resulted in Canadian-controlled distribution companies accounting for about 29.2% of the movie theatre market in Quebec, dramatically higher than in the rest of the country. The average for the country as a whole is about 15%. Canadian films have also been far more successful in the Quebec market.

Thus, for example, as our Committee was drafting its report, five French-language feature films were in release at the same time, occupying about 100 movie screens in Quebec. In the same way, for 15 years, Quebec films have been earning popular success in Quebec theatres, and critical acclaim at prestigious film festivals around the world. What this suggests is a fairly simple rule of thumb: when the structural barriers which limit the access of our films to Canadian theatres are reduced, Canadian feature films, like Canadian television programs, can attract and entertain the Canadian public.

It is discouraging for our Committee to be the next in a long line of committees and task forces that recognize the difficulties created by allowing Canada to be treated as part of the American film market. One response, perhaps the best, would be national legislation – as recommended by earlier committees – to strengthen Canadian-control of film distribution. An alternative would be to strengthen Investment Canada guidelines in order to protect the existing revenues of Canadian-controlled distributors, and gradually shift the distribution of independently produced foreign films to the Canadian-controlled sector of the industry.

At present, foreign film distributors are free to open new branch offices in Canada and can take over the distribution of their films from our domestic distributors. This has the potential to undermine the Canadian-controlled distributors because they depend heavily on revenues from distributing foreign films in order to sustain an effective presence in the Canadian film market. Just as Canadian broadcasters could not survive if they broadcast only Canadian programs, Canadian feature film distributors could not hope to survive if they distributed only Canadian films. Only by prohibiting the start-up of new foreign owned subsidiaries in Canada can the future of Canada's few substantial domestic distributors be secured. If this is not done, the tens of millions of dollars in public funding provided through the Distribution Fund since 1988 to sustain Canadian distributors may ultimately have been spent in vain – accomplishing nothing more than to delay

the almost complete domination of theatrical distribution outside Quebec by foreign controlled distributors.

Revised Investment Canada guidelines could both block such new entries and the takeover of existing Canadian-controlled distributors. In reviewing applications from new foreign owners wishing to acquire foreign-controlled firms already in Canada, the new owners could also be restricted to distributing their own films – that is, those produced through their affiliated production arms and those for which they own world wide rights. This would allow Canadian-controlled distributors to play an increasing role in distributing independently-produced foreign films. Such action would be consistent with the recommendations of the Cohen Report.

*As in broadcasting, it is essential that the feature film support provided through Telefilm Canada be implemented within a framework of integrated and complementary measures, including initiatives to substantially strengthen Canadian control of film distribution.*

It would be possible to look at the present situation and conclude that because the Government's assistance to Canadian cinema has been less successful than in television, it makes sense to scale it down, or eliminate it. We think there are compelling reasons for reaching the opposite conclusion.

First, it's important to recognize that French-language Canadian cinema has achieved a significant critical success, and has been able to attract substantial audiences. To sustain and build on that success, it is vitally important that assistance through Telefilm be strengthened and made more effective. The English-language cinema has also had some critical success, but has not been able to achieve the same kind of audience breakthrough. This has significant consequences, because theatrical success substantially affects the acceptance of feature films in the home video market, and the audiences Canadian films attract when they are broadcast. However, this does not mean that Canadian films in English are not seen by Canadians. They are seen, in fact, on CBC television, where a number of Canadian films have attracted audiences of well over a million viewers.

Another important factor to emphasize is that feature-length films have the longest life of all audiovisual works, and penetrate far more channels of distribution. An increasing number of the distribution channels are linked to broadcasting. While, 20 years ago, feature films went directly from movie



theatres to conventional television, today they are shown in movie theatres, offered for sale or rental in home video outlets, shown initially on pay television, and later on conventional television, movie channels, specialty services and educational television. The new direct-to-home distribution services will devote a substantial number of channels to pay-per-view services, which will show mainly feature films, and in future, video-on-demand may further increase the viewing of feature films. In summary, the demand for feature films will continue to grow, and audiences for films will increase and become more diversified.

However, what is finally most important is that film remains what it has been from the beginning – the most influential art form of all. While television has an immediacy and a diversity that penetrates every aspect of our lives, most television programs are soon forgotten. But the work of the great film directors of Sweden, Italy, France, and the United States attract each new generation and help to define the character of each nation. It is through its important role in British film, rather than through its television programs, that Channel 4 is known throughout the world; just as it is in film that Australia has projected its image, and the distinctive creative vision of its artists. There must now be a reaffirmation and a strengthened commitment to Canadian cinema.

#### **RECOMMENDATION:**

**Government policy should recognize that the development of a distinctive Canadian cinema in French and in English is essential to the cultural life of the country.**

### **4.1 THE FEATURE FILM FUND**

In our opinion, the existing 1986 guidelines and the 1988 Memorandum of Understanding for the Supplementary Fund should have provided a sound basis for the operation of the Feature Film Fund.

When the Fund was created in 1986, the guidelines established by the Government authorized Telefilm to use some of the funding allocated to the Feature Film Fund to assist in the promotion and distribution of Canadian films, as well as in their development and production.

Table 6  
COMPARISON OF PARLIAMENTARY APPROPRIATION PROVIDED  
AND ACTUAL EXPENDITURES FOR THE FEATURE FILM FUND,  
1986-87 TO 1994-95 (\$ millions)

	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95
<b>Expen- ditures</b>									
English	10	13	21	19	19	13	16	11	9
French	6	12	10	11	10	10	8	10	7
<b>TOTAL</b>	16	25	31	30	29	23	24	21	16
<b>Appro- priation</b>	27	27	37	37	37	37	35	32	31
<b>Differ- ence</b>	11	2	6	7	8	14	11	11	15
Source: Telefilm Canada.									

As indicated in Table 6, the highest annual level of expenditure that Telefilm allocated to the Feature Film Fund was \$31 million in 1988-89. This is substantially less than the appropriation provided by the Government which, allowing for the 10% which was to cover Telefilm's administrative costs, would have resulted in \$37.3 million in assistance.

The percentage of the appropriation allocated to the Feature Film Fund which was used for other activities had increased further by 1991-92. Although there had been no cuts in the Government's appropriation for Telefilm and the level of assistance the Government intended to provide through the Feature Film Fund remained at \$37.3 million, commitments through the Fund slipped to \$23 million that year.

If, before the creation of the Distribution Fund in 1988, it was understandable that a significant portion of the resources of the Feature Film Fund be allocated to support marketing and distribution, it is more difficult to justify the continuation of this practice after the creation of the Distribution Fund, which was allocated \$17 million exclusively for distribution and marketing.

After 1991-92, Telefilm's overall Parliamentary appropriation began to be reduced. By 1994-95, it had been reduced by 16%, from \$145 million to \$122 million. If the Feature Film Fund had absorbed no more than its fair share of the reduction, the resources committed through the Feature Film



Fund would still have been just over \$31 million in 1994-95, rather than the \$15.5 million actually spent. Instead, Telefilm continued to transfer an increasing percentage of the funds intended for the Feature Film Fund to other activities and programs. Over the five years from 1990-91 to 1994-95, almost \$60 million intended for the Feature Film Fund was used for other purposes.

It was possible for this to occur because the Department of Communications (now the Department of Canadian Heritage) did not specifically " earmark" the money each year for the Feature Film Fund, nor explicitly prohibited the use of the funds for other purposes. To be fair to the Department, however, the government's intended level of assistance through the fund was clearly indicated in a number of policy statements.

We believe that this situation is one that should be addressed and that the resources allocated by Telefilm through the Feature Film Fund should be consistent with the appropriation provided for this purpose. Although we note that Telefilm has indicated its intention in the current year to increase its support through the Feature Film Fund to \$24 million, this is still less than the amount that would be available, taking into account the overall level of Telefilm's appropriation in 1995-96. The amount that should have been provided is \$28 million plus the reinvestment of revenues earned from Feature Film Fund investments.

The cultural objectives of the Fund and its operating principles should be consolidated into a single Memorandum of Understanding. This MOU should incorporate the specific cultural objectives contained in the original guidelines for the Fund and for the Supplementary Fund, as well as the operating practices set out in each.

#### **RECOMMENDATION:**

**The level of financial assistance provided through the Feature Film Fund should reflect the government's original intention when the Fund and the Supplementary Fund were created, subject only to the overall reduction in Telefilm's appropriation since 1989-90.**



#### **RECOMMENDATION:**

**The resources originally intended for the Feature Film Fund (plus any earned revenues) should be specifically earmarked for use only in the Feature Film Fund.**

#### **RECOMMENDATION:**

**The Feature Film Fund should be administered by Telefilm through a single MOU with the Minister of Canadian Heritage. It should combine the objectives and operating practices set out in the original Feature Film Fund guidelines and in the original MOU for the Supplementary Fund.**

## **4.2 THE FEATURE FILM DISTRIBUTION FUND**

As we've indicated, the Distribution Fund has not been successful in solving the structural problem engendered by foreign domination of the film distribution industry. The market share of theatrical distribution revenues accounted for by Canadian controlled distributors has not increased since the Fund was created in 1988, with foreign firms still controlling nearly 85% of the market.

Although the Feature Film Distribution Fund has encouraged the concentration of distribution activities in the hands of six larger companies, it has been less successful in persuading these companies to give greater support to the marketing and distribution of films assisted by the Feature Film Fund.

The 1988 Memorandum of Understanding, which describes the ground rules for the Fund, does not adequately reflect and reinforce the cultural goals of the Distribution Fund. As a result, almost two-thirds of the support given in 1994-95 in the form of minimum guarantees provided by distributors to Canadian films, went to assist feature films with limited Canadian creative involvement that would not qualify for Feature Film Fund support. This is a particular concern since feature film productions already lack adequate production financing, and don't benefit from the necessary marketing support. The Distribution Fund is also not subject to





any of the objectives in Telefilm's other programs concerning linguistic or regional balance. For these reasons, the committee does not believe that the Distribution Fund should be continued in its present form, or as a separate program.

We would recommend that the resources in the Feature Film Distribution Fund should be transferred into a single, all encompassing program to support the distribution and marketing of Canadian films and television productions. The new Memorandum of Understanding should cover all areas of activity now supported through the Feature Film Distribution program, the Versioning Assistance Fund, Closed Captioning for the Hearing Impaired, the National and International Marketing Assistance Programs and the Festivals Bureau. The existing resources from all of these programs would be combined to finance a more focused and streamlined program. The guidelines for the allocation of support through the new Marketing and Distribution Fund should be consistent with the cultural focus recommended for the Broadcast Fund and the Feature Film Fund. This will ensure that the resulting productions are effectively distributed and properly promoted. Financial assistance for the distribution and marketing of Canadian feature films should, in the future, be restricted to those films supported by the Feature Film Production Fund.

Telefilm's support to Canadian film festivals merits attention in the preparation of an MOU for the Marketing and Distribution Fund. Consistent with the overall focus we recommend for Telefilm, we believe that the MOU should make provision for Telefilm to recognize the importance of the best and most innovative small festivals across the country. There are a number of well-run smaller festivals that can provide a showcase for creative Canadian filmmakers, and the best work from around the world. Without neglecting the needs of the major Canadian festivals, care ought to be taken to adequately assist the best smaller festivals as well.

#### **RECOMMENDATION:**

The existing Feature Film Distribution Fund should be replaced by a Marketing and Distribution Fund which would cover all aspects of Telefilm's assistance to feature films and television, and include the programs of the Festivals Bureau. The Fund should be administered by Telefilm through a new MOU developed by the Department of Canadian Heritage. The new MOU should focus on the cultural goals of the Government, with primary attention given to ensuring that Canadian films and television programs that receive production assistance through the Broadcast and Feature Film Funds are effectively promoted, marketed and distributed.

#### **RECOMMENDATION:**

Under the provisions of the MOU for a new Marketing and Distribution Fund, financial assistance for the marketing and distribution of Canadian films should be restricted to those films that are supported by the Feature Film Production Fund.

### **4.3 THE CRTC & CANADIAN CINEMA**

The licensing of new broadcasting applications and the renewal of existing licences provide a real opportunity for the CRTC to use its licensing and regulatory powers to strengthen Canadian cinema. Applications for the licensing of new direct-to-home (DTH) satellite services and of pay-per-view programming services have provided a particularly important opportunity for the Commission to extract a contribution to the financing of Canadian feature films, and to make such features more available to the public through the broadcasting system.



As the CRTC implements its new policies requiring contributions from direct-to-home satellite services, the goals established for the use of such funds are of fundamental importance. The Commission has already moved to a stronger definition of a Canadian production in the guidelines for the Cable Production Fund. The Committee strongly supports a more targeted approach to Canadian content programming. Because much of the revenue earned by the new DTH services will come from the broadcast of feature films, an appropriate level of support from any DTH sponsored production fund should go directly to Canadian feature films.

**RECOMMENDATION:**

**In issuing or reviewing the licences of Canadian broadcasters whose schedules include feature films, the CRTC should establish specific conditions regarding minimum levels of Canadian feature films that should be broadcast annually, and the ratio of Canadian to foreign films to be telecast.**

**RECOMMENDATION:**

**As new Canadian production funds are established, they should be subject to the same 8 point requirement established for the Cable Production Fund. As a result, these new production funds will be able to support Canadian films and television programs that are identifiably and distinctively Canadian.**

**RECOMMENDATION:**

**Canadian feature films should benefit financially from any new production funds established by CRTC regulation, to an extent that reflects the importance of feature films in the program schedule of the licensed service contributing to the fund.**

## 5. OTHER ISSUES

### 5.1 PRODUCTION SUPPORT PROGRAMS

Besides the Broadcast Fund and the Feature Film Fund, Telefilm now operates, among others, a Production Revenue Sharing Program, a Commercial Production Fund, a Regular Fund, as well as a program through which interim financing is provided to productions.

It's worth spending a moment to describe two of these funds in more detail – the Production Revenue Sharing Program and the Commercial Production Fund. An evaluation of the Production Revenue Sharing Program was carried out by Telefilm in January 1995. The program is essentially a corporate assistance fund that primarily benefits larger firms. To the extent that companies achieve a higher than average return on Telefilm's investments, the program provides them with increased resources. From the perspective of rewarding success the Fund makes sense, but it raises serious questions about why these firms need additional support, and it inevitably complicates efforts to pursue goals such as linguistic and regional balance. Since 1990-91, only one firm outside Montreal and Toronto has qualified.

Telefilm's review of its Commercial Production Fund confirmed that producers view the Fund mainly as a source of interim financing. Telefilm had a different goal in mind, however, and created the Fund to enhance its earned revenue and, as stated in its 1995-96 *Action Plan*, bases its decisions "essentially on financial merit." Telefilm now provides its support in the form of equity investment, projecting that its recoupment will rise to 65% of the amounts invested.



We believe that the creation of a loan guarantee program and a tax credit in the current year greatly reduces the need for separate Telefilm programs focused on corporate development. These two programs impose an additional level of complexity on Telefilm's operations, without industry benefits that justify the effort.

Substantial funds are allocated both to the Production Revenue Sharing Program (\$5.8 million in 1995-96), and the Commercial Production Fund (\$9 million in 1995-96). The Committee believes that both programs should be discontinued and the resources reallocated to the Broadcast Fund and the Feature Film Fund. To the extent that there is a need for Telefilm to assist more commercial types of Canadian production, such assistance should be provided only through fully repayable interim loans, or, in the case of corporate support, in the form of loan guarantees.

#### **RECOMMENDATION:**

**The Commercial Production Fund and the Production Revenue Sharing Program should be phased out, with assistance to commercial Canadian productions provided only through interim loans or loan guarantees.**

## **5.2 CONSOLIDATION INTO THREE MAJOR FUNDS**

Earlier, we recommended the consolidation of all Telefilm's marketing and distribution programs, as well as its support to festivals, into a single Fund. This consolidation will greatly simplify Telefilm's programs – making their administration easier and ensuring that they can be more easily understood by applicants.

The same conviction leads to the belief that there need only be two Funds for production – one for television programs and a second for feature films. We considered but strongly reject the idea that there should be a further reduction of the Broadcast and Feature Funds into a single Production Fund. There are fundamental differences between the two which make such integration impracticable. We were also concerned that the creation of a single production fund would give insufficient emphasis to a distinctive Canadian cinema.

This does not mean that we believe that there should never be additional Funds established, but simply that Telefilm's *existing* responsibilities can and should be simplified and consolidated into the three funds proposed. The test of whether new funds should be created in the future should be whether, as in the case of feature films and television programs, there are overriding considerations that require an additional fund... and a different set of guidelines.

In making these recommendations, we clearly acknowledge that Telefilm should continue to be involved as a source of interim financing to the industry. Telefilm has a long history of success in the repayment of its interim loans. We also recognize the value of the new loan guarantee program. Like the interim loan program, the loan guarantees do not involve a net cost to the Government, apart from any provision made for the possibility that loan guarantees would have to be honoured.

#### **RECOMMENDATION:**

**With the exception of the Interim Financing and Loan Guarantee Programs, all of Telefilm's current support to production, marketing and distribution should be consolidated under the three Funds recommended.**

### **5.3 NEW MEDIA PRODUCTION**

In response to concerns regarding the presence of Canadian content in new media, Telefilm has explored the role it might play in assisting Canadian production. The shaping of appropriate and effective Government policy is, however, a complex matter, since it is not only film and television producers, but also publishers and software companies that are involved. In addition, as Telefilm has argued, substantial resources are required in order for Telefilm to play an effective role in this area.

The Information Highway Advisory Committee and its Working Group on Canadian Content and Culture have reported recently. Just as in broadcasting and film, we believe Telefilm can be most effective when it delivers assistance in the context of a broader Government policy. The corporation has proved its capacity to implement policy effectively. We believe that revised legislation should provide for Telefilm to become an active participant in the new media, but that it should do so on the basis





of objectives and operating guidelines defined in an MOU with the Minister of Canadian Heritage, and should have additional resources provided specifically for that purpose.

#### **RECOMMENDATION:**

**Telefilm should play an active role in assisting new media content. Additional resources should be provided to Telefilm specifically for this purpose, and the operational guidelines should be based on a Memorandum of Understanding developed by the Department of Canadian Heritage within the context of a comprehensive Government strategy for new media development.**

### **5.4 INDUSTRY & PROFESSIONAL DEVELOPMENT**

Telefilm now provides a limited amount of funding to other activities such as industrial and professional development. While we have not reviewed these activities in detail, we recognize their significance to Telefilm's relationship with industry associations and the provision of support to association initiatives such as those in professional development. While there should be no increase in the proportion of Telefilm assistance allocated to these activities – which in 1995-96 will likely represent about 3% of total expenditure – Telefilm should continue to have the resources required for this purpose.

### **5.5 PRODUCTION TRAINING**

The Committee's mandate specifies that we review arrangements for federal assistance to production training in broadcasting and film. As part of our review of the CBC and the NFB, we considered the role each might play. We concluded that while each can perform an important role in the course of carrying out its functions as a publicly funded production body, we do not believe that either the CBC or the NFB are the appropriate organizations to assume primary responsibility for this kind of training; nor would it be appropriate for either to administer federal assistance to training institutions and programs.

We heard no arguments to create a new training institute. There are already three innovative and effective training institutes – the Canadian Film Centre, l'Institut national de l'image et du son (INIS), and the National Screen Institute – as well as a number of other programs, some administered by industry associations. The Department of Canadian Heritage has provided funding support on an ad hoc basis to all three institutes mentioned. The CFC and NSI have also received ad hoc assistance from Telefilm and the National Film Board.

The Committee believes that the existing training institutes are sufficiently important that they should benefit from predictable on-going support, rather than depending on unstable, ad hoc assistance. However, rather than delegating this responsibility to one of its corporations, we believe that the Department of Canadian Heritage should assume this responsibility as part of its role in developing, co-ordinating and evaluating film and broadcasting policies. The resources available should be sufficient to sustain current levels of support, at the very least.

#### **RECOMMENDATION:**

**The Department of Canadian Heritage should assume responsibility for the allocation of support to training institutes in film and television, and provide predictable support to these institutes, at the current levels of funding.**

## **5.6 OPERATIONAL ISSUES**

There is undeniably a trend toward concentration in the production industry. The development of large companies is inevitable and desirable in many ways, particularly in order to manage large projects such as dramatic television series. Because the involvement of large companies in such projects is valuable, it is important that they continue to receive support where their projects are consistent with Telefilm's mandate.

But creative innovation and experimentation are not the sole preserve of large firms, nor are they resident in any one part of Canada. In fact, risk-taking can sometimes imperil large organizations and financial realities often push them toward the mainstream. We believe that Telefilm has a respon-



sibility to manage its resources with an eye to maintaining what might be called an ecology of creativity. Smaller and medium sized firms in all regions should continue to be supported to a degree that allows them to seek out and develop interesting and innovative ideas. Every part of Canada has its own stories and its own realities to document and explore. Telefilm's policies have been, and should continue to be, sensitive to that need.

As we've already noted, we believe that feature films represent a particularly important cultural responsibility for Telefilm. The Corporation should be responsive to the needs of filmmakers and increasingly supportive of new and imaginative filmmaking talent.

Telefilm has offices in Montreal, Toronto, Vancouver and Halifax. The Committee believes that it would be valuable for Telefilm to open a second office in Western Canada, to serve Alberta, Saskatchewan and Manitoba. This office should be modelled on the existing Halifax office, and operate with a very small professional staff.

Each regional office should coordinate script and project assistance to producers in the region and provide Telefilm's head office with an insider's understanding of the importance of individual projects. While the arbitrary allocation of production resources by region would impose undesirable rigidity, each regional office should be allocated a reasonable base level of funding for script and project development, with the choice of projects being made by the head of the regional office. The heads of the regional offices should also be involved in decision-making on production financing at the national level. They should be chosen for these jobs because they have a good deal of experience in the region, and they should be highly knowledgeable about both the cultural life of the region, and of the region's film and television production activities.

Telefilm's operations are at present highly centralized in Montreal, with over two-thirds of its staff located there. The Corporation has indicated that it intends to decentralize its activities significantly. We agree strongly with that proposed initiative. In addition to opening a new office to serve the Prairie Provinces, we also believe Telefilm should transfer additional responsibility for its English-language programs to Toronto.

**RECOMMENDATION:**

Telefilm should actively encourage and nurture small and medium sized companies in all the regions of the country.

**RECOMMENDATION:**

A fifth Telefilm office should be established to serve Alberta, Saskatchewan and Manitoba.

**RECOMMENDATION:**

Telefilm should decentralize its operations significantly, including the transfer of additional responsibilities for its English-language programs to Toronto.

TELEFILM  
CANADA





## 6. POLICY & LEGISLATION

### 6.1 POLICY DEVELOPMENT & IMPLEMENTATION

We believe that the overall responsibility for all aspects of Government policy and programs affecting film and television – and the audiovisual media generally – should remain with the Department of Canadian Heritage. The Committee is convinced that if the distinctive cultural characteristics of the people of Canada are to find adequate expression there must be a comprehensive and integrated framework of public policy. The goals of Government policy should be to foster the cultural development of Canada. Responsibility for the development and co-ordination of that policy – and the necessary authority to exercise it effectively – should rest with the Minister of Canadian Heritage.

Earlier in this chapter, the Committee recommended that the Department prepare revised Memoranda of Understanding for the Broadcast and Feature Film Funds, as well as an MOU for a new Marketing and Distribution Fund. As a general principle, the Department should ensure on a continuing basis that there is compliance with the provisions of these MOUs. The Department should also assume responsibility for commissioning regular evaluations of the Funds that Telefilm administers. We believe it is more appropriate that such evaluations be handled independently from Telefilm, and that they constitute an essential component of the Department's policy responsibility.

In order to develop and evaluate its policies effectively, the Department must also possess the necessary resources and information about broadcasting and film. As a means of keeping the Department up to date and active-



ly involved in the industry, it should continue to certify productions for purposes of the new Film and Video Production Tax Credit, as it has in the past for the Capital Cost Allowance. That responsibility provides an understanding of the location, creative content, sources of financing and other important production information necessary to inform the policy process. The responsibility for administering Canada's co-production treaties now rests with Telefilm rather than with the Department. Although Telefilm examines applications for certification under the treaties, the agency cannot actually certify them. Instead, because the Department is unable to delegate its legal authority for certifying co-productions, they must be sent by Telefilm to the Canadian Film and Video Certification Office in the Department to be submitted for approval by the Minister. Rather than having Telefilm involved, it would be more efficient to assign this responsibility to the Film and Video Certification Office. More important, the exercise of this certification responsibility will further assist the Department in maintaining an up-to-date understanding of production activity and issues.

**RECOMMENDATION:**

**The Department should exercise responsibility for the development, co-ordination and evaluation of broadcasting and film policies. Regular evaluations of the Funds should be carried out under the direction of the Department.**

**RECOMMENDATION:**

**To assist the Department in maintaining up to date information about the production industry, it should retain responsibility for certifying Canadian productions for purposes of the Income Tax Act and should take over responsibility from Telefilm for certifying international co-productions.**

## 6.2 LEGISLATION

Telefilm's basic mandate and powers should continue to be defined through legislation. The amended *Act* should provide Telefilm Canada with a mandate to pursue the development of film, television and other audiovi-

sual production as a means of cultural expression in both French and English and in all regions of Canada. Telefilm's regional mandate should clearly spell out the need for appropriate levels of production in all regions, and the reflection of the social, political and cultural life of each region.

The *Canadian Film Development Corporation Act* should be substantially amended to incorporate the following revisions:

**RECOMMENDATION:**

**The Corporation, to be officially renamed Telefilm Canada, should be given a mandate to pursue the cultural objectives of the Government in film, broadcasting and new media.**

**RECOMMENDATION:**

**The revised Act should provide Telefilm with the powers required to administer funding programs designed to support the development, production, distribution and marketing of Canadian films, television programs, and other audiovisual works.**

**RECOMMENDATION:**

**Telefilm should be given a mandate to seek an appropriate linguistic balance in the assistance it provides, and to foster the production of films, television programs and other audiovisual works in all regions of Canada.**

In the course of our consultations, the possibility has been raised that Telefilm might administer new or existing production funds at the request of non-governmental organizations. The possibility that Telefilm might act as an independent manager of funds that are raised through CRTC levies on the revenues of DTH satellite undertakings is one example. The Committee is quite comfortable with this approach, and we believe that the powers of the Corporation under a revised *Telefilm Canada Act* should permit Telefilm to administer programs on behalf of other parties. However, Telefilm should not assume such additional responsibilities without the approval of the Minister.



**RECOMMENDATION:**

**The revised Act should permit Telefilm Canada to administer programs on behalf of other organizations subject to the approval of the Minister of Canadian Heritage.**

### 6.3 MEMORANDA OF UNDERSTANDING

It's very clear that legislative changes can't be introduced in the House of Commons on a regular basis, and, as a result, Telefilm's legislative framework should be broad enough to accommodate the activities likely to be necessary over at least the next decade.

However, in a rapidly changing environment, more specific guidelines are required which can be amended as the need arises. The Memoranda of Understanding used since 1983 have proved their appropriateness and utility as a means of ensuring that Telefilm's initiatives reflect the overall policies developed by the Department of Canadian Heritage. We have built our recommendations on the assumptions that MOUs initiated and developed by the Minister and the Department should in the future provide the basis for all of Telefilm's major programs.

**RECOMMENDATION:**

**The Department of Canadian Heritage should establish through Memoranda of Understanding the policy objectives and the methods of operation for all of Telefilm's major programs.**

## 7. TELEFILM'S FINANCES

### 7.1 TRENDS IN TELEFILM REVENUES

Telefilm Canada receives an annual appropriation from Parliament and is also permitted to use the revenues it earns from its investments. With its appropriation being steadily reduced, Telefilm has been seeking, not surprisingly, to increase its earned revenues. Trends in Government appropriations to support Telefilm's programs are summarized in Table 7. The issue of recoupment is examined from a policy perspective below.

Table 7  
TELEFILM CANADA REVENUES  
(\$ millions)

Fiscal year ended Mar. 31	85	86	87	88	89	90	91	92	93	94	95	96	Projected 97	Projected 98
Appropriation	47	76	88	109	129	146	145	145	137	124	122	110	91	81
Earned revenue	4	4	8	19	15	15	18	19	20	26	30	30*	38	38
<b>Total Revenue</b>	<b>51</b>	<b>80</b>	<b>96</b>	<b>128</b>	<b>144</b>	<b>161</b>	<b>163</b>	<b>164</b>	<b>157</b>	<b>150</b>	<b>152</b>	<b>140*</b>	<b>129</b>	<b>119</b>

Note: \* Estimated

Source: Data compiled for the Mandate Review Committee by Ernst & Young based on information supplied by Telefilm Canada.

Parliamentary appropriations for Telefilm reached their peak in 1989-90 – reflecting the creation of the Distribution Fund and the addition of supplementary resources to the two principal production funds. The Government



added these supplementary dollars to the Broadcast and Feature Film Funds in 1988 to offset the reduction of the CCA tax incentive from 100% to 30% – substituting increased direct spending for reduced tax expenditure. In current dollars, appropriations continued at that level through 1991-92, but have declined sharply since then. This has meant a 25% reduction in Telefilm's Parliamentary appropriation level between 1989-90 and 1995-96.

Parliament has not taken any final decision, as yet, for future years, but reference levels from the Finance Department (established for planning purposes) indicate the possibility of a further cut of 26% over the next two years. This would see the resources committed through Telefilm reduced from \$146 million in 1989-90 to \$81 million in 1997-98, a 45% reduction in current dollars. Taking inflation into account, Telefilm's appropriation would be at less than half its level in 1989-90.

Inevitably, Telefilm has responded to this reduction in Government funding principally by seeking a higher rate of recoupment on its investments. The Corporation's earned revenues increased 100% between 1989-90 and 1994-95 despite the overall reduction in its investment levels. Earned revenues had risen to 20% of Telefilm's resources by the end of 1994-95, a substantial increase from 9% just six years ago. Telefilm is projecting a further increase to 32% in 1997-98.

## 7.2 POLICIES ON RECOUPMENT

The Committee spent a good deal of time looking at the connection between Telefilm's financial situation (shrinking appropriations and expanding commercial revenues)... and its overall cultural mandate. We began our analysis by examining the implications of Telefilm's aggressive commercial revenue strategy.

Because we regard Telefilm as a cultural organization rather than a venture capital fund, we do not automatically assume that increased earned revenues are a sign of success. They signal success if, and only if, they result from the pursuit of Telefilm's mandate and enhance its ability to achieve its cultural goals.



As Table 8 indicates, earned revenue increases *have not come from investments through the two programs we regard as being at the heart of Telefilm's cultural mandate* – the Feature Film Fund and the Broadcast Fund. In fact, combined revenues from these two funds were virtually unchanged over this period – \$13 million in 1990-91 and \$12 million in 1994-95. The increased earned revenues resulted instead from revised guidelines for the Feature Film Distribution Fund and the creation of two new programs to support production – the Production Revenue Sharing Program and the Commercial Production Fund. Revenues from the latter programs are shown in the “Other” column in Table 8.

Table 8  
TELEFILM CANADA SOURCES OF EARNED REVENUE  
5 YEAR TREND (\$ millions)

Year	BF	FFF	FFDF	Other	Total
1990-91	8	5	3	2	18
1991-92	9	5	3	2	19
1992-93	9	2	3	6	20
1993-94	10	2	6	8	26
1994-95	10	2	7	11	30

Source: Data compiled for the Committee by Ernst & Young based on Telefilm information.  
BF: Broadcast Fund, FFF: Feature Film Fund, FFDF: Feature Film Distribution Fund.

Our Committee is sympathetic to Telefilm seeking a return on its investments – so long as it does not do so at the expense of the objectives it exists to pursue. In fact, we believe that Telefilm should seek to optimize its recoupment wherever possible, but only to the extent that this is consistent with the cultural goals of its programs. That is clearly not what has been happening over the past five years, during which Telefilm has shifted resources away from culturally focused investment and into investments based on fairly conventional commercial criteria.

Experience over the past decade suggests that Telefilm can achieve a level of recoupment in the range of 10% to 15% from investments through the programs the Government has asked Telefilm to deliver. If, through the new Marketing and Distribution Fund, Telefilm can improve upon the market revenues earned by productions supported through the Broadcast Fund and



the Feature Film Fund, it should seek to do so. But it should not do so at the expense of the cultural mandates of these important programs.

The guidelines for the Broadcast, Feature Film, and Feature Film Distribution Funds now require that Telefilm put any revenues earned back into the fund from which they were invested. This provision should continue to be included in the guidelines for all funds.

#### **RECOMMENDATION:**

**The Government should make it clear in the revised Memoranda of Understanding that Telefilm's investment decisions are to be based on cultural objectives, including the goals of linguistic and regional balance, and should require that revenue earned through investments from a fund should be reinvested in that fund.**

### **7.3 IMPACT OF THE TAX CREDIT**

**B**efore looking at the level of funding required for Telefilm's principal existing Funds, the Committee considered whether the Film and Video Production Tax Credit introduced in December 1995 will reduce the need for Telefilm Canada assistance. The new tax credit will replace the Capital Cost Allowance (CCA) originally introduced in 1974. It has been estimated that Government revenues were reduced approximately \$100 million by the incentives associated with CCA claims in 1993-94, with \$60 million of this cost covered by the Federal Government and \$40 million by the provinces. The cost of the new tax credit – an exclusively federal incentive – has been estimated to be about \$60 million.

The tax credit will be of greatest benefit to Canadian productions made *without* Government assistance, since it will apply only to the private portion of production budgets. For the increasing majority of Canadian production that is carried out without direct Government assistance, the tax credit will represent 12% of the cost of production. By comparison, the tax credit will cover on average between 6% and 7% of the budgets of productions supported through the Broadcast Fund, and 3% to 5% of the production budget of Feature Film Fund projects. Neither Broadcast Fund nor

Feature Film Fund projects will on average be better off under the tax credit than they were under the CCA.

The tax credit will not reduce the need for selective, direct financial assistance through Telefilm to projects – whether in French or in English – that are intended primarily for the Canadian market. That need will continue to be greatest for French-language and regional productions.

## 7.4 ADMINISTRATIVE SAVINGS

As a means of dealing with reduced appropriations, the Committee considered whether Telefilm's administrative costs could be reduced. Only limited savings are possible, since 85% to 90% of Telefilm's resources on average are committed externally through its programs. Information provided by Telefilm indicates that administrative costs averaged 12.2% of its total Parliamentary appropriation between 1990-91 and 1994-95. Administration represented 11.2% of total revenue, including both appropriations and earned revenues.

We do believe, however, that Telefilm's staff requirement and administrative costs are increased by the excessive number of programs it runs. The recommendations we have made should simplify administration and reduce costs.

Telefilm now receives a basic allocation of \$1.6 million toward administrative expenses. It is also authorized to allocate up to 10% of the appropriation it receives toward administration. As part of the restructuring of the MOU's, Telefilm's administrative funding should represent 10% of the appropriation, with the basic administrative allocation eliminated.

### **RECOMMENDATION:**

**The revised Memoranda of Understanding should provide for Telefilm to use up to 10% of the appropriation for each of the Funds toward administrative costs, with Telefilm's basic administrative appropriation being eliminated.**



## 7.5 REALLOCATION OF EXISTING RESOURCES

The second question we examined was the degree to which funds might be reallocated from programs that are either incompatible with Telefilm's clear cultural mandate or are of secondary importance. Most of these issues have been raised in our recommendations concerning Telefilm's programs. Table 9 provides a historical breakdown of Telefilm Canada's expenditures. The combined expenditures under the three MOU's have been declining as a percentage of Telefilm's total expenditures over the period beginning in 1989-90 when all three funds, including their supplementary resources, were first in place. The Funds accounted for 76% of Telefilm's total program spending in 1994-95 – down from 84% in 1989-90.

By putting all of its production financing into the Broadcast and Feature Film Funds, the impact of past budget reductions can be partially offset. Nevertheless, in estimating how much this will increase the resources of the two production funds, it must be noted that levels of recoupment are higher in the programs we recommend phasing out than in those programs to which the resources would be transferred.

## 7.6 RECOMMENDED LEVELS OF FUNDING

The reallocation of resources to the key production funds that we have recommended, combined with administrative savings, will add several million dollars to the Broadcast and Feature Film Funds. These new funds represent, however, only a small portion of the \$36 million reduction that has already occurred in Telefilm's funding. They would not compensate for any future reductions. There is little scope for increased contributions to be made by Canadian broadcasters, and particularly among French-language broadcasters. The CBC's ability to finance such production has declined and will continue to do so, unless our alternative revenue recommendations are implemented.

Table 9  
TELEFILM CANADA EXPENDITURES 1984-85 TO 1994-95  
(\$ millions)

Year	Production			Marketing & Distribution		Industry Dev. Support	Administration	Total
	BF	FFF	Other prod.	FFDF	Other			
1984-85	33	-	5	-	3	2	6	49
1985-86	63	-	3	-	4	1	7	78
1986-87	56	16	2	-	6	2	11	93
1987-88	73	25	2	-	8	4	14	126
1988-89	65	31	5	12	11	6	13	143
1989-90	81	30	5	13	14	5	16	164
1990-91	76	29	4	15	14	6	18	162
1991-92	75	23	9	16	12	7	18	160
1992-93	70	24	8	14	11	6	18	151
1993-94	66	21	14	13	11	5	18	148
1994-95	65	16	16	15	11	4	17	144

Source: Data prepared for the Mandate Review Committee by Ernst & Young based on information supplied by Telefilm Canada.

In these circumstances, the Committee believes that there should be no further cuts to Telefilm Canada. This is particularly important for French-language production and for regional production, and for distinctively Canadian production. Telefilm's existing resources are already inadequate to permit private broadcasters to meet their Canadian content requirements with adequately funded, distinctively Canadian programs. In these circumstances, further cuts to Telefilm will accelerate the Americanization of English-language television, and will result in a continuing decline in program quality in French-language television. If, in cinema, our best writers, directors and performers are to have the opportunity to work with adequate resources in putting powerful Canadian works on the screen, they must have access to more realistic production budgets – not, we would argue, comparable to American production budgets, but at least comparable to those in Britain, France, Italy and Australia.

While we would argue for maintaining Telefilm's resources because of the cultural significance of the resulting Canadian productions, there is also a strong economic argument to be made. The \$332 million invested through the Broadcast Fund between 1990-91 and 1994-95 triggered over \$1 billion worth of production activity, while the \$97 million invested through the Feature Film Fund (in the same period) generated a further \$284 million worth of production. Across the country, there are many production





companies whose development over the past few years has only been possible because of Telefilm. The future of many of those firms will be compromised by a further round of cuts. Film and television production in the categories Telefilm supports is highly labour intensive, and will remain so. There is a large community of freelance technical and creative talent across the country that depends on production supported by Telefilm.

Because Telefilm is an essential cultural organization and helps to support a billion dollar production industry as well, we believe that its appropriation should be stabilized at the 1995-96 level of \$110 million. With the reallocation we have proposed, this would permit a modest increase next year for the Broadcast and Feature Film Funds. The resources would still be significantly below the levels originally established for the two funds, but we fully understand the magnitude of the current fiscal environment.

Earlier in this chapter, we have described the degree to which, over the past decade, Telefilm has used funds that were originally intended to support the Feature Film Fund for other purposes. The Committee believes that it is critically important for the Federal Government to make the final decision on the annual allocation of resources for each of Telefilm's principal funds in the future. This decision should be taken by the Department of Canadian Heritage.

#### **RECOMMENDATION:**

**The Federal Government should stabilize Telefilm Canada's Parliamentary appropriation at the current level of \$110 million and should determine how much is to be allocated each year to each of Telefilm's Funds.**



V.

NEW MEDIA,

NEW VOICES

THE MANDATE REVIEW COMMITTEE





## V. NEW MEDIA, NEW VOICES

In the course of the three preceding chapters, we have brought forward some observations on the role of new media in the work of each of the three organizations. “New media” is a term often used interchangeably with “digital media.” Both refer to production and communications technologies that allow content of all kinds – text, audio, video, animation, graphics, data – to be created, manipulated and delivered in binary digits or “bits,” the language of computers based on patterns of zeroes and ones.

These new technologies are the building blocks of a phenomenon that Canadians now hear about on an almost daily basis – the Information Highway. In 1994, the Government acknowledged the growing importance of this phenomenon when it appointed the Information Highway Advisory Council to report to the Minister of Industry on the economic, technical, industrial and cultural ramifications of emerging digital media.

We will comment in a moment on the overall significance of new media in the context of Canadian education, culture and entertainment. First of all, and by way of reminder, the Committee notes that its own terms of reference required comment on the issues surrounding new and emerging media. Our terms of reference note that:

The Government intends to design in 1995 the policies and directives which will guide *the development of the Information*

NEW MEDIA,  
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*Highway*. The creation of indigenous sound and image products of high quality will be key to vigorous Canadian content, in all its many forms, on the Highway.

Elsewhere, the terms of reference spell out the factors the Committee was to take into account in examining the respective mandates:

The Mandate Review Committee will advise the Minister on changes to the mandates and, if advisable, legislation and the future positioning of the CBC, NFB and Telefilm Canada, taking into account budgetary constraints and *new technology*.

#### CLARIFYING SOME MISCONCEPTIONS

We wish to be clear on two basic points. First, despite the understandable associations made between new media and new *technologies*, the changes we are referring to do not begin and end with hardware and networks. On the contrary, while technology may have allowed this dynamic process of change to take place, its importance still lies in the content – the sounds, images and stories that are conveyed from creator to audience. If a revolution is occurring anywhere, it is in the studios, edit suites and labs where content is created. We saw ample evidence of the ways digital techniques are changing conventional filmmaking, for example, by making it possible to create “virtual sets” using computers, rather than going on location.

Second, the new media should not be viewed as replacements for the traditional media. Among the examples we have looked at, such as those discussed below, the typical strategy is to use a new medium like the Internet as a forum for promoting, enhancing and enriching an existing broadcasting outlet or cultural institution. Many World Wide Web sites, such as those developed by the CBC and the NFB, are designed to act as gateways to the core offerings found on a broadcast network or in a catalogue of film titles.

#### CONVERGENCE

Just as most Canadians now enjoy music from many different sources, like radio, television, cassettes, vinyl albums and compact discs, so information and entertainment in all their forms are becoming available from a variety of sources both inside and outside the home.

The extent to which digital technology has become a force in the conventional media is reflected in another initiative undertaken by the federal government – the creation of the Task Force on Digital Television in October 1995. The Minister of Canadian Heritage appointed the task force to provide analysis and advice on the transition to a new TV standard, expected to replace the 50-year-old NTSC standard over the next decade.

The task force begins its work after years of costly and controversial research and development in the United States, Japan and Europe on high definition television, or HDTV. Under the aegis of the U.S. Federal Communications Commission, a consortium of high tech interests has formulated a set of proposals for a standard to replace the NTSC system. The single most important feature of this new production, transmission and reception standard is that it uses digital, not analog, technology. The new digital standard will precipitate sweeping changes across the Canadian television system, not unlike those prompted by digital radio, as described in our CBC chapter.

While it is not our task to dwell on the information revolution, we would be remiss if we did not acknowledge the degree to which the personal computer has taken its place in Canadian homes – nearly one-third of them, by the best estimates. The growth in home computer use has been accompanied by a continuing increase in the ownership of multimedia devices, particularly CD-ROM players and modems, which allow users to connect over phone lines to network services like the Internet.

We note with interest that one of the paradoxes of convergence is that it has tended to cause a *divergence* in communications applications and appliances. Even though the computer is becoming more watchable and user-friendly, and the TV set is on its way to becoming a “smart” digital device, each has something different to offer audiences, and their parallel development can only open opportunities for Canadian content providers.

#### NEW MEDIA ACTIVITIES ELSEWHERE

In assessing how the mandates of the three institutions should accommodate new media, the Committee found it useful to look at developments in other jurisdictions, particularly the United States, Europe and Australia.

What we discovered was that both commercial and public broadcasters in many of the developed countries have made a significant commitment to

investments, alliances and joint ventures in new media. Not surprisingly, most of the diversification into new media is centred in the United States, where both intellectual and financial resources are plentiful. One area that has received a good deal of attention there is "interactive multimedia." This refers to entertainment and information delivered in digital form and incorporating audiovisual material that can be manipulated directly by end-users.

New media investments seem to be part of an overall strategy of mergers, acquisitions and alliances among large content providers.

The four major American networks (ABC, CBS, Fox and NBC) have all developed a significant online presence that includes promotion, marketing and other activities on the World Wide Web, as have commercial services like America Online, CompuServe and the Microsoft Network. These services provide on-demand audio, video, photo and text information about the television networks' programming, as well as program-related merchandise like CD-ROMs. Among dozens of ventures, the major networks have interests in: specialty and satellite networks, pay-per-view, location-based entertainment, CD-ROM title development, video-on-demand, the re-use of intellectual property like news broadcasts, video game platforms and intelligent software agents.

Of particular interest to the Committee, however, was the degree of activity among public broadcasters other than the CBC – including both PBS and National Public Radio in the United States.

*PBS.* In the face of reductions in its government funding and a volatile broadcasting marketplace, PBS has reorganized its corporate structure to expand its niche markets more effectively and increase revenue-generating capacity. While maintaining the core National Program Service, PBS has created two new departments with significant budgets – PBS Interactive and PBS Online – to handle new media initiatives and program spin-offs.

PBS has also launched a joint venture with the long-distance telephone carrier MCI to offer online, Internet and CD-ROM media services. Initial projects include the expansion of the PBS Online service, and the development of new multimedia projects and programming with children's, family, science, humanities, business and education themes. PBS chief executive Ervin Duggan has said that this venture represents two of six new strategic direc-



tions for PBS announced in 1994: to “plant flags” on new technologies and form joint ventures with private-sector media companies.

*NPR.* Like PBS, National Public Radio provides a comprehensive Web site containing automated links to member stations, on-demand audio clips, program transcripts and a news service updated daily. NPR was among the first organizations to use an Internet credit-card transaction system to allow the online, direct sale of transcripts of its top national programs.

*BBC.* The BBC established a comprehensive guide to all its programming and services on the World Wide Web. What is noteworthy is the range of program information available at this site in comparison with other broadcasters: about 40% of all BBC radio, television and other services are represented. The BBC has also established an “interactive” department with a staff of 20 assigned to gather, package and coordinate the flow of information from program producers and researchers to the Internet audience.

Similar significant initiatives, involving internal reallocation of resources into new media projects, have been underway for some time at the Australian Broadcasting Corporation.

#### DEVELOPMENTS IN CANADA

As in the U.S., the private sector in Canada has not been sitting idle as new media opportunities have presented themselves. Broadcasters like the CHUM-City Group and CTV have created interactive divisions responsible for developing services for the World Wide Web, as well as material destined for use on CD-ROMs. These activities parallel in many ways the work we described earlier that is underway at the CBC.

Canada also boasts a young but dynamic multimedia industry that has developed outside the aegis of the regulated audio and video industries. Some of the success stories involve computer software companies, while others involve companies focused on the development of digital titles and products. In addition to software companies with an international reputation, like Corel, some developers have made their mark in the field of special effects software for motion pictures. Two of these, Montreal-based Softimage and Toronto-based Alias Research, were bought by large and influential U.S. companies, Microsoft and Silicon Graphics respectively, in 1994.

Among multimedia companies, some of the busiest and most successful – like Toronto's Digital Renaissance, Montreal's On-Q, Vancouver's Monroe Multimedia – are relatively small and operate with little or no government assistance. Important developments in 1995 included the announcement by the ExCITE Laboratory at Simon Fraser University of *Ncompass*, a unique software program that will enable Internet transactions on a pay-per-use basis.

Because the multimedia industry has grown so quickly, and operates outside any regulatory framework, public policy has been slow to respond. While our terms of reference did not ask us to make explicit suggestions about a multimedia policy, the Committee believes that the development of a comprehensive action plan by the federal government is essential. In addition to encouraging the kind of imaginative and entrepreneurial work just noted, federal policies are needed to give guidance to the three cultural institutions as they begin to venture into the largely uncharted waters of new media.

We are not alone in advocating government action in this area. The Information Highway Advisory Council urged the Government to bring forward policies to encourage the development of content for Canadian new media, including investment incentives and access to funds designated for multimedia programs.

One crucial function that certainly deserves attention is the collection, analysis and dissemination of data on Canada's software, multimedia and digital production industries.

#### **RECOMMENDATION:**

**The Government should recognize that new media technologies, both networked (like the World Wide Web) and stand-alone (like CD-ROMs), have important cultural and creative potential, in addition to offering opportunities for industrial and economic growth.**

## **RECOMMENDATION:**

**The Government should develop a comprehensive strategy on new media that would: allow the Department of Canadian Heritage to coordinate initiatives undertaken by cultural organizations; promote the collection and dissemination of data on new media activities in the private sector; and, where appropriate, identify sectors that would benefit from government support.**

## THE MANDATES

In reviewing the respective mandates in earlier chapters, we argued for some recognition of the relevance of new media to each organization's operations. Initiatives are at varying stages of development. The CBC has begun exploring new media in a fairly accessible way, particularly with its site on the World Wide Web, whereas the NFB has ventured into the more experimental arena of video on demand. For its part, Telefilm has held back from its undertaking to create a new-media fund or program, pending review of its budget and overall strategy.

Although we have just seen how far new media and digital technology have penetrated the production and communications industries, we feel a more general rationale for the pursuit of these initiatives by public institutions is in order.

The first point we wish to make goes to the heart of the cultural mandates: ensuring the production and availability of Canadian content. Because of the evolution of the media over the decades, this content has come to us primarily in the form of broadcasting and feature films, and thus through the distribution channels offered by television, radio and film theatres. What is important about this system is that the content be created and delivered to its audience in an accessible and affordable way. That is precisely what the CBC, NFB and Telefilm were created to do.

The new media offer pathways to the audience that complement and enhance the existing infrastructure, as stakeholders in the conventional media are the first to profess. If what counts is indeed the content, we would argue that mandates and government policy should be permissive, not

restrictive, when it comes to determining *how* domestic cultural products get to Canadian audiences. This principle is in fact reflected in the 1991 *Broadcasting Act*, which makes technological neutrality one of the underpinnings of the broadcasting policy for Canada. We've said that what counts is delivering worthwhile content to Canadian audiences. If these audiences are spending more and more time in front of their computers, then this trend should be reflected in how the CBC and its sister organizations attempt to make contact with their audiences.

It is of course something of an oversimplification to suggest that content is content, and one pipeline for getting it to the audience is as good as another. Apart from other considerations, we noted above that digital technology is having as great an impact on production as it is on distribution. This means the range of what content providers can create is expanding. High-powered computer workstations, for example, allow animators at the NFB to do things they simply couldn't do before.

Our second point flows from the first and concerns the culture of innovation. In some respects, the idea that the cultural institutions should be involved in new production and distribution techniques is nothing new. Throughout the development of broadcasting and filmmaking, the CBC and NFB have played an important leadership role. Both have often taken pioneering risks in their work on new technologies and new content models, with tangible benefits later on to the private sector.

The CBC's accomplishments have ranged from the co-development of standards for digital radio, to the introduction of network techniques like the inter-city "double-ender" interview used in television news and current affairs, which has become North American industry practice. For its part, the NFB has a long track record of innovations in the fields of animation, documentary filmmaking and special projection techniques. These range from the invention of "pixillation" by animator Norman McLaren in the 1950s, to research and development on large-screen film formats which led to the invention of the Imax family of technologies.

The Committee was struck during its deliberations by the large number of creative people in the film and broadcasting industries who said they owed their start to the NFB or CBC. We believe this is a tradition that should continue. But innovation is a two-way street.

We would also encourage these cultural institutions to take advantage of the multimedia talent pool that has developed across the country. Those active in the multimedia industry are typically young, well-educated, passionate about their work and willing to take risks. The Committee believes that both the CBC and the NFB would benefit from giving these new creative talents a voice through partnerships and joint ventures with multimedia software developers.

#### **RECOMMENDATION:**

**The CBC and NFB should explore opportunities to produce and commission new media content in conjunction with independent multimedia software developers.**

There is a third reason why we believe it makes sense for the cultural organizations to play a role in the development of new media in Canada. The CBC and NFB are not only major content producers in their own right; they are also major repositories of Canadian-produced audiovisual materials stretching back for decades. These libraries are excellent candidates for what the industry calls digitization.

Digitization is a process whereby music, natural images, motion video and other analog material is transformed into a digital format. While digitization requires highly specialized skills and equipment, it has a tremendous advantage once the process is completed. Any material that has been reduced to the digital “computer language” can be reshaped and used in countless different applications. Such material can be stored conveniently, transmitted across computer networks, transformed into electronic mail or presentations, incorporated into other digital materials, edited and reproduced without any loss of quality. The underlying creative content can ultimately be made to reappear in a completely different medium – a book on a CD-ROM, a movie in a video game, a television news broadcast on a computer. This conversion of content represents a way of better amortizing basic production costs, as well as reaching new niche audiences.

Most of the large media organizations in North America with their own content or intellectual property have devoted resources to this activity. The Committee believes that the CBC and NFB should examine carefully the costs and benefits involved in subjecting their own libraries to this process. The two principal reasons for doing so are: long term safekeeping of impor-



tant heritage resources; and the creation of new multimedia products which can be brought to alliances and joint ventures with multimedia developers.

The CBC and NFB libraries contain raw footage, stock shots, finished films and programs which, once converted into digital form, may prove much more valuable than in their original analog form. The conversion of this material, either by the organizations themselves or by the private sector, could represent an important way to maximize use of material on the shelf, and an extra source of revenue. Ultimately, information generated and collected by all federal cultural institutions will be an important resource for multimedia production.

#### **RECOMMENDATION:**

**The CBC and NFB should examine the costs and benefits of digitizing and re-using materials drawn from their existing collections of stock footage, programs, films and related resources. Assessments should be undertaken with private-sector partners having experience in multimedia development and marketing, particularly in converting content for new markets and applications.**

These national collections have been built, made accessible and preserved for the most part at public expense. They represent a public investment which permits the cultural diversity and wealth of expression throughout Canada's history to be documented and preserved. Digitization of these collections offers a unique opportunity to make our creative voices – past, present and future – heard by people all across the country.





# APPENDICES

THE MANDATE REVIEW COMMITTEE



## I. TEXT OF THE COMMITTEE'S TERMS OF REFERENCE

### CONTEXT

- As stated in the Budget Plan of February 27, 1995, "the Government will undertake a fundamental review of its support to, and the mandates of, the CBC, NFB and Telefilm Canada."
- The Government intends to design in 1995 the policies and directives which will guide the development of the Information Highway. The creation of Canadian-content sound and image products of high quality will be key to vigorous Canadian content, in all its many forms, on the Highway.
- The CBC, NFB and Telefilm Canada have been instrumental in the development of Canada's film, video and broadcasting sectors. In addition, Canada is developing an internationally competitive private production industry which has achieved world recognition for excellence in a rapidly changing media environment.
- Industry is restructuring and redefining itself in order to respond to this new environment. So, too, must public institutions established by Parliament form new relationships, consider new structures and develop new strategies to meet priorities.
- The Federal Government's overriding cultural objective for the audio-visual sector remains clear: ensuring production and availability of, and access to, Canadian content. The goal of this mandate review is to identify how this objective and the objectives of the legislation which pertain to

the CBC, NFB and Telefilm can best be met and thus respond to the challenges of the multi-channel universe and fiscal framework constraints.

- The mandate review will also bear in mind the need to reflect Canada's linguistic duality.
- The mandate review process will respect the traditional arms-length principle as there is no intention to provide day to day guidance on the management of these agencies.

#### MANDATE

- The Mandate Review Committee will advise the Minister on changes to the mandates and, if advisable, legislation and the future positioning of the CBC, NFB and Telefilm Canada, taking into account budgetary constraints and new technology. The Committee will also take into account the requirement to support the CBC as a strong public broadcaster which reflects Canada's diverse regions and the possibility of alternative sources of revenue.
- Without limiting the scope of its counsel, the Committee will analyze and provide advice to the Minister on the following traditional areas of activity as related to the mandates, such as research and development, technical innovation, training, production, distribution and broadcasting.
- The mandate review will result in advice on options for changes in priorities for the three organizations, possible changes to their mandates and legislation and possible changes in structures to increase effectiveness and synergies.

#### OPERATIONS

- The Committee will consult closely with the CBC, NFB and Telefilm Canada. The Committee may seek the technical and administrative support and assistance of staff from the Department of Canadian Heritage and the three agencies.

- In conducting the review, the Committee will make use of the findings and recommendations of the Standing Committee of the House on Canadian Heritage on the role of the CBC in the multi-channel universe, the Working Group on Canadian Programming and Private Television, and the Group of Experts on Alternative Programming Services.
- In addition, the Committee will draw on past studies and reports previously submitted to the Government. It will also draw upon submissions previously made by the public, experts and private sector representatives to recent public processes. It is not expected to initiate new comprehensive studies.
- The Mandate Review Committee will be comprised of three members: Catherine Murray, Peter Herrndorf and Pierre Juneau as chairman. The Committee will report directly to the Minister of Canadian Heritage as soon as possible, and no later than September 1, 1995. (This deadline was later extended to January 1996.)





## 2. LIST OF RECOMMENDATIONS

### CANADIAN BROADCASTING CORPORATION

#### RADIO

1. CBC radio should maintain its regional and local presence and continue to operate four national networks. (*p. 50*)
2. CBC's radio services should maintain their distinctive, non-commercial character as provided in the CRTC's conditions of licence. (*p. 50*)
3. The Government should use its power under the *Broadcasting Act* to reserve an FM frequency for the CBC in Toronto and in Quebec City. The Government should also work with the CBC to identify other communities that would benefit from the move of the Radio Network to FM. (*p. 51*)
4. The CBC should continue its efforts to promote an orderly transition to digital radio in cooperation with its private-sector partners. (*p. 52*)
5. The CBC should continue with its plans to ensure that the radio service is attractive to a wide cross-section of the listening public and that the means be found to reach out to new, particularly younger audiences. (*p. 54*)
6. The SRC radio services should be more flexible in fulfilling their regional obligations to francophones outside Quebec, by giving the

relevant stations more discretion to program to the needs of their own listeners. (*p. 55*)

7. CBC should encourage greater cooperation in news-gathering between radio and television, but should not attempt to integrate the news operations of the two media. (*p. 56*)
8. The CBC should consider creating a committee of the Board to focus exclusively on radio issues or else devote alternate meetings of the committees on English- and French-language programming to radio. (*p. 56*)
9. The Radio and Stereo networks should be protected from further cuts for a period of three years. Any efficiency gains realized in this three-year period should be kept by radio to be reinvested in programming and to reward radio for demonstrated excellence in public service. (*p. 57*)

#### TELEVISION

10. CBC television must become a new kind of general-interest public service that rededicates itself to the principle of serving both the needs of a general audience and the needs of more specialized audiences. (*p. 100*)
11. Both CBC television networks should continue to provide programming that informs, enlightens and entertains their audiences. But their program services should be distinctively and almost totally Canadian; they should be a clear and intelligent alternative to commercial television; and they should be committed to quality, innovation and public service. (*p. 100*)
12. CBC television should provide a public broadcasting service for all Canadians, at least some of the time. It should not focus its efforts on being a narrowly cast service for an elite audience. (*p. 100*)
13. CBC Television should concentrate on being a high quality Canadian alternative in the following areas: in news and current affairs journalism; in distinctively Canadian drama; in arts and science; in children's

programming; and in unique Canadian comedy and variety programming. (p. 100)

14. CBC television should provide program schedules that are unmistakably Canadian. As a result, CBC's English television network should abandon its prime time American commercial programming; its American syndicated shows in the late afternoon; its American "soaps" in the early afternoon; and both networks should replace the Canadian programs in their schedules that are there primarily for commercial reasons or are merely pale imitations of American commercial formats. (p. 100)
15. CBC television should, however, continue to acquire and schedule the best programming produced around the world, on a selective basis. This programming should be chosen for its quality and not for its commercial potential. The critically acclaimed British drama *The Politician's Wife*, currently running on CBC English television, and the Franco-Italian co-production, *La chambre des dames*, to be aired later this season on SRC, are useful illustrations of foreign programs that clearly enhance CBC's schedules. (p. 101)
16. CBC television should dramatically reduce its emphasis on sports. It should stay in hockey, the Olympics, major Canadian events like the Grey Cup and the Briar Curling Championship, and a wide range of amateur sports; but it should work more closely with other broadcasters to share "rights" and to avoid the kind of sports congestion that occurs during the NHL playoffs. (p. 101)
17. CBC television should phase out its commercial advertising activities over the next four years, except in areas such as sports (in which the program rights are only available on a commercial basis). This would greatly strengthen the CBC's role as a public broadcasting alternative, and provide new (and much needed) revenue for private broadcasters to play a more active role in Canadian production. (p. 101)
18. The Corporation should renegotiate its affiliate agreement to allow all Canadian viewers to receive the full prime time network service from the CBC. (p. 102)

19. CBC television should produce as much of its network programming across the country as possible. (*p. 102*)
20. CBC television should continue to employ a critical mass of creative and journalistic talent to produce a wide range of its programming “in house”; but the majority of its programming (outside of news, current affairs and sports) should be produced by the independent production community. (*p. 102*)
21. CBC television should maintain an active local and regional programming role, and provide a clear alternative to local commercial broadcasters. (*p. 102*)
22. CBC television should negotiate a “preferred supplier” relationship with the NFB, which would include a commitment to a specified number of NFB productions being aired on both main networks, as well as Newsworld and RDI, on an annual basis. (*p. 102*)
23. CBC television should become a leading content provider in the new media, much as the Corporation provided essential Canadian programming in the early days of radio and television. (*p. 102*)
24. CBC television should measure its audience performance far more on its ability to “reach” most Canadians in the course of a week, than on the traditional marketplace test of “audience share.” (*p. 103*)

#### MEASURING CBC’S SUCCESS

25. The Committee recommends that the CBC develop new success criteria to evaluate its performance in attracting audiences to Canadian programs: in particular, share of viewing for Canadian programs and relative reach or time spent with the public broadcaster. (*p. 110*)
26. In order to track the CBC’s contribution to the diversity of TV and radio programs made available and viewed or listened to in Canada, we recommend that CBC Audience Research consult with other agencies (CAVCO in the Department of Canadian Heritage, Statistics Canada and the CRTC) to improve its audience measurement and to rationalize the resources to do so. (*p. 112*)

## CHANGES IN ORGANIZATION &amp; LEGISLATION

27. The *Broadcasting Act* should be amended to designate the head office of the CBC as Montreal. The President, the Chair and key corporate services should move to Montreal as the current head office building in Ottawa is vacated. Office space should be reserved for the Chair and President in the national capital region. Some of the corporate functions that do not move to Montreal should be moved to other production centres across the country. A Parliamentary, Government and CRTC liaison office should remain in the national capital region. (p. 114)
28. The *Broadcasting Act* should be amended to specify that the President be chosen by the CBC's Board of Directors and not the Governor in Council, or alternatively, by the Governor in Council on the recommendation of the CBC Board. (p. 115)
29. The *Broadcasting Act* should be amended to clarify the respective roles of the Board of Directors and of the President. The Board should be responsible for approving the goals, policies and long-range plans of the CBC as well as evaluating their implementation. The President should be the Chief Executive Officer and be responsible for general management and supervision of the staff. The President should develop long-term strategies for recommendation to the Board. (p. 116)
30. The CBC management and unions should modernize their collective agreements by: eliminating jurisdictional inflexibility, introducing broader job descriptions, allowing more flexible production methods and renegotiating the "protected-employee status" granted to some staff. (p. 122)
31. The Government should review the wording of the *Broadcasting Act* to ensure that it allows CBC to become a content provider in new and emerging media. (p. 123)
32. The Government should delete sections 3(1)(q) and (r) of the *Broadcasting Act*. The Government should add the provisions that CBC programming should "be innovative," "include programming for interests and tastes not adequately provided for," and "include pro-

gramming devoted to culture and the arts” to the Corporation’s mandate. (p. 124)

## FINANCING THE NEW CBC

33. The Government should introduce a new multi-year funding system for the CBC to replace the existing system of annual Parliamentary appropriations starting in 1997-98. (p. 149)
34. Beginning in 1997-98, the CBC should introduce a continuous efficiency improvement program of 2% per year. (p. 149)
35. While the Committee could support all of the alternative funding systems that are described in options 1, 2 and 3, the Committee recommends the introduction of a Communications Distribution Tax (CDT) to provide the CBC with stable, predictable long-term funding. (p. 149)
36. The new funding system for the CBC should be implemented through a statutory appropriation provision in the *Broadcasting Act*, which would be reviewed every seven years. (p. 150)

## THE NATIONAL FILM BOARD

### FILMMAKING ACTIVITIES

37. The NFB should continue to play an essential role in the cultural and social life of Canada as a key public producer. (p. 167)
38. The Board should focus its production efforts on:
  - innovative, long form documentaries;
  - both experimental and more broadly accessible animated films;
  - a wide range of educational materials designed for young audiences;
  - a limited number of distinctive, feature-length movies and television dramas;



- a variety of new media initiatives that would be part of a wider strategy to make new *content forms*, created in Canada, available to domestic audiences. (p. 170)

39. The NFB should greatly reduce its complement of permanently employed producers, directors and technicians, and make regular use of freelance and contract personnel for development, production and post-production activities. (p. 171)
40. The Board should continue to reduce staff in administrative positions to a point where their ratio to overall staff drops to a level consistent with industry practice in other large producing organizations. The Board should also review the staff levels in its production support activities. (p. 171)
41. The NFB's head office, its French-language production activities, and its animation activities should stay in Montreal. The Board's English-language production activities should be moved to Toronto over the next two years, with only a regional English-language production centre staying in Montreal. (p. 172)
42. The NFB's head office, production activities and essential technical facilities should move to a new and smaller production centre in downtown Montreal. The Côte-de-Liesse building should be vacated, and the building and parts of the technical operation should be sold or leased by the Department of Public Works. (p. 172)
43. The NFB should proceed with its plans to create a pool of English and French language production funds that internal units would have to compete for on the merits of their projects. It would be part of an overall goal to put more money into production (through the reallocation of funds from overhead to production), and to allocate additional funds to production centres across the country. (p. 173)

## AUDIENCES & DISTRIBUTION

44. The Board should set full cost recovery as a clear target for its distribution activities. The Board has already achieved this goal in its interna-

tional distribution, and it would require a major cutback in the Board's domestic distribution activities, staffing and expenditures. (*p. 178*)

45. The NFB should focus most of its distribution energies on getting television exposure for its films, on both conventional and specialty television services. (*p. 180*)
46. The NFB should also work more closely with private sector distributors to seek new commercial opportunities for both its current production schedule, as well as its extensive library. This initiative would generate additional revenues and reduce in-house costs. (*p. 180*)
47. The NFB should reach a "preferred supplier" agreement with CBC and SRC, which would include commitments on an annual stream of NFB productions to be aired on the main networks, as well as Newsworld and RDI. (*p. 180*)
48. The NFB should undertake an audit by outside experts of all its existing library holdings, in order to determine their fair market value, before embarking on a strategy to develop this resource. (*p. 183*)

#### BUDGETARY & LEGISLATIVE ISSUES

49. The NFB's enabling legislation should be amended to reflect the contemporary communications environment. (*p. 188*)
50. The NFB should be encouraged through legislative amendment to produce materials for a broad range of audiovisual media, including but not restricted to conventional film, large-format film like Imax, computer generated animation and motion video, broadcast television, analog videotape, and new and emerging digital formats such as online computer networks, optical disc platforms and location-based, interactive environments. (*p. 188*)
51. The status of Government Film Commissioner as conferred on the NFB's chief executive officer should be abolished and the mandate to advise the Governor in Council on film activities be removed from the *Act*. (*p. 189*)

52. The NFB should be encouraged to maintain a limited research mandate to be exercised in conjunction with the Board's production and distribution operations. Aside from the informal training that is the natural result of work-related activities, the Board should refrain from allocating resources to formal training programs. The wording of the *Act* should be amended to take this recommendation into account. (*p. 190*)

## TELEFILM CANADA

### A MANDATE FOR THE FUTURE

53. Telefilm Canada has played an important role in developing an indigenous television and film production industry, and it should be maintained and strengthened as an organization that is essential to the cultural life of the country. (*p. 215*)
54. The mandate of Telefilm should emphasize the principle that it is a cultural corporation, using commercial and industrial means to foster Canadian creative expression in television and film, in English and French, and in all regions of the country. (*p. 215*)

### TELEFILM'S ROLE IN IMPLEMENTING BROADCASTING POLICY

55. The cultural goals of the Broadcast Fund should be stated more precisely in a revised Memorandum of Understanding with the Minister of Canadian Heritage. The revised MOU should specify that qualifying productions should be produced primarily for domestic audiences; that they should achieve a minimum of eight points in content certification under the Income Tax Act; and that priority should be given to productions with the strongest Canadian creative elements, and the most compelling Canadian themes and stories. (*p. 226*)
56. The Broadcast Fund MOU should specify that Telefilm Canada will seek an appropriate balance between its support to English and

- French-language projects, and will foster production in all regions of the country. (*p. 226*)
57. Broadcast Fund support should be available for under-represented categories of production – namely drama, children’s programming, documentaries, and the performing arts (defined to include dance, opera, comedy, theatre, and both classical and contemporary music). (*p. 227*)
58. Broadcast Fund priority should be given to innovative, complex and high quality productions, which a qualifying broadcaster has agreed to telecast between 7 pm and 11 pm. Children’s programming would be an exception to the prime time rule. The definition of a qualifying broadcaster should be expanded to include services widely available on cable (rather than just those networks and stations carried on the basic cable service). (*p. 228*)
59. The Broadcast Fund MOU should be amended to deal with the issue of “access to the fund” by producers who are affiliated with companies holding broadcast licences. “Self dealing” should be prohibited by disallowing access for projects to be broadcast by an affiliated broadcaster in their first commercial cycle of exhibition. (*p. 229*)
60. Broadcasters should be encouraged to invest in projects for which they have paid an appropriate licence fee, as long as the project is produced by a non-affiliated independent producer. In those situations, the broadcaster should be able to share the copyright and revenues in proportion to their investment. (*p. 230*)
61. The Broadcast Fund should only be accessible to Canadian independent production companies in which Canadians hold at least 75% of the equity, and have de facto control. (*p. 231*)
62. The Broadcast Fund’s MOU should be revised so that independent production licensed by the CBC or SRC receives 50% of the available annual funding, averaged over a three-year period. (*p. 232*)
63. The Broadcast Fund’s MOU should recognize explicitly the CBC’s special responsibility to telecast distinctively Canadian programming, and its responsibility to develop its production almost exclusively for a domestic audience (rather than for export). (*p. 232*)

64. Telefilm should resist the temptation to operate like a “studio,” and should limit its creative involvement to selecting those projects that will be funded. In other words, Telefilm should provide funding and business advice, but should not get actively involved in trying to influence the writing, performing or production elements of projects under consideration. (*p. 233*)
65. The Broadcast Fund should make a special effort to nurture new and emerging creative talent, and should continue to provide active support to small and medium sized companies across Canada. (*p. 233*)

#### TELEFILM'S ROLE IN CANADIAN CINEMA

66. Government policy should recognize that the development of a distinctive Canadian cinema in French and in English is essential to the cultural life of the country. (*p. 240*)
67. The level of financial assistance provided through the Feature Film Fund should reflect the Government's original intention when the Fund and the Supplementary Fund were created, subject only to the overall reduction in Telefilm's appropriation since 1989-90. (*p. 242*)
68. The resources originally intended for the Feature Film Fund (plus any earned revenues) should be specifically earmarked for use only in the Feature Film Fund. (*p. 243*)
69. The Feature Film Fund should be administered by Telefilm through a single MOU with the Minister of Canadian Heritage. It should combine the objectives and operating practices set out in the original Feature Film Fund guidelines and in the original MOU for the Supplementary Fund. (*p. 243*)
70. The existing Feature Film Distribution Fund should be replaced by a Marketing and Distribution Fund which would cover all aspects of Telefilm's assistance to feature films and television, and include the programs of the Festivals Bureau. The Fund should be administered by Telefilm through a new MOU developed by the Department of Canadian Heritage. The new MOU should focus on the cultural goals of the Government, with primary attention given to ensuring that



Canadian films and television programs that receive production assistance through the Broadcast and Feature Film Funds are effectively promoted, marketed and distributed. (*p. 245*)

71. Under the provisions of the MOU for a new Marketing and Distribution Fund, financial assistance for the marketing and distribution of Canadian films should be restricted to those films that are supported by the Feature Film Production Fund. (*p. 245*)

#### THE CRTC & CANADIAN CINEMA

72. In issuing or reviewing the licences of Canadian broadcasters whose schedules include feature films, the CRTC should establish specific conditions regarding minimum levels of Canadian feature films that should be broadcast annually, and the ratio of Canadian to foreign films to be telecast. (*p. 246*)
73. As new Canadian production funds are established, they should be subject to the same 8 point requirement established for the Cable Production Fund. As a result, these new production funds will be able to support Canadian films and television programs that are identifiably and distinctively Canadian. (*p. 246*)
74. Canadian feature films should benefit financially from any new production funds established by CRTC regulation, to an extent that reflects the importance of feature films in the program schedule of the licensed service contributing to the fund. (*p. 246*)

#### OTHER ISSUES

75. The Commercial Production Fund and the Production Revenue Sharing Program should be phased out, with assistance to commercial Canadian productions provided only through interim loans or loan guarantees. (*p. 248*)
76. With the exception of the Interim Financing and Loan Guarantee Programs, all of Telefilm's current support to production, marketing



and distribution should be consolidated under the three Funds recommended. (*p. 249*)

77. Telefilm should play an active role in assisting new media content. Additional resources should be provided to Telefilm specifically for this purpose, and the operational guidelines should be based on a Memorandum of Understanding developed by the Department of Canadian Heritage within the context of a comprehensive Government strategy for new media development. (*p. 250*)
78. The Department of Canadian Heritage should assume responsibility for the allocation of support to training institutes in film and television, and provide predictable support to these institutes, at the current levels of funding. (*p. 251*)
79. Telefilm should actively encourage and nurture small and medium sized companies in all the regions of the country. (*p. 253*)
80. A fifth Telefilm office should be established to serve Alberta, Saskatchewan and Manitoba. (*p. 253*)
81. Telefilm should decentralize its operations significantly, including the transfer of additional responsibilities for its English-language programs to Toronto. (*p. 253*)

## POLICY & LEGISLATION

82. The Department should exercise responsibility for the development, co-ordination and evaluation of broadcasting and film policies. Regular evaluations of the Funds should be carried out under the direction of the Department. (*p. 256*)
83. To assist the Department in maintaining up to date information about the production industry, it should retain responsibility for certifying Canadian productions for purposes of the Income Tax Act and should take over responsibility from Telefilm for certifying international co-productions. (*p. 256*)

84. The Corporation, to be officially renamed Telefilm Canada, should be given a mandate to pursue the cultural objectives of the Government in film, broadcasting and new media. (*p. 257*)
85. The revised *Act* should provide Telefilm with the powers required to administer funding programs designed to support the development, production, distribution and marketing of Canadian films, television programs, and other audiovisual works. (*p. 257*)
86. Telefilm should be given a mandate to seek an appropriate linguistic balance in the assistance it provides, and to foster the production of films, television programs and other audiovisual works in all regions of Canada. (*p. 257*)
87. The revised *Act* should permit Telefilm to administer programs on behalf of other organizations subject to the approval of the Minister of Canadian Heritage. (*p. 258*)
88. The Department of Canadian Heritage should establish through Memoranda of Understanding the policy objectives and the methods of operation for all of Telefilm's major programs. (*p. 258*)

#### TELEFILM'S FINANCES

89. The Government should make it clear in the revised Memoranda of Understanding that Telefilm's investment decisions are to be based on cultural objectives, including the goals of linguistic and regional balance, and should require that revenue earned through investments from a fund should be reinvested in that fund. (*p. 262*)
90. The revised Memoranda of Understanding should provide for Telefilm to use up to 10% of the appropriation for each of the Funds toward administrative costs, with Telefilm's basic administrative appropriation being eliminated. (*p. 263*)
91. The Federal Government should stabilize Telefilm Canada's Parliamentary appropriation at the current level of \$110 million and should determine how much is to be allocated each year to each of Telefilm's Funds. (*p. 266*)

## NEW MEDIA

92. The Government should recognize that new media technologies, both networked (like the World Wide Web) and stand-alone (like CD-ROMs), have important cultural and creative potential, in addition to offering opportunities for industrial and economic growth. (*p. 274*)
93. The Government should develop a comprehensive strategy on new media that would: allow the Department of Canadian Heritage to coordinate initiatives undertaken by cultural organizations; promote the collection and dissemination of data on new media activities in the private sector; and, where appropriate, identify sectors that would benefit from government support. (*p. 275*)
94. The CBC and NFB should explore opportunities to produce and commission new media content in conjunction with independent multimedia software developers. (*p. 277*)
95. The CBC and NFB should examine the costs and benefits of digitizing and reusing materials drawn from their existing collections of stock footage, programs, films and related resources. Assessments should be undertaken with private-sector partners having experience in multimedia development and marketing, particularly in converting content for new markets and applications. (*p. 278*)



























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